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# SOME PROBLEMS OF ECONOMIC PLANNING BY GOVERNMENT[1]

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There are two kinds of planning. The one kind might be called engineering planning and the other economic planning. When the United States Steel Corporation considers the problem of where to erect a new blast furnace it takes into account the source of raw materials, the location of the market, nearness to other producing units and a host of other factors. This I call engineering planning, although this is obviously arbitrary since many aspects of such planning are economic in character. When federal, state or local government plans the location of roads, school houses or power dams this is also engineering planning. This type of planning is obviously necessary and the economic problems involved are usually not extremely difficult of solution. This is true because no serious problem of authority and administration is involved. The body which does the planning is a part of the entity which executes the plan.

Economic planning is different for two reasons. It is different first because it must deal with the highly complex problem of the balance and coordination of economic forces and the economic mechanism. It is different in the second place since so long as there exists private ownership of the means of production, planning has to be carried out by government while the actual operation of the economic mechanism must be carried on by private or corporate enterprisers.

[1] Presidential address delivered at the Tenth Annual Meeting of the Southern Economic Association, Knoxville, Tennessee, November 5, 1937.

I do not believe there is much controversy about engineering planning. Private and corporate industry have always carried it on. Once the decision is made for the government to undertake a particular activity, the government naturally must undertake engineering planning also. It is with respect to economic planning, however, that controversy rages. Consequently I shall confine my remarks to this phase of planning.

I wish to point out, first, the economic changes which have impaired the old automatic regulatory mechanism; second, I intend to discuss very briefly some of the problems of the economy whose existence has given rise to the demand for economic planning, and last I shall point out two or three of the most serious problems that would have to be solved if extensive economic planning were carried on by government.

## I

The crucial national economic problems which are now emerging and demanding solution are rooted in the seriously weathered structure of the laissez-faire economy. So long as that structure remained immune from decay, government was almost free from the necessity of grappling with basic economic problems. Once the principle of laissez faire was adopted, the economy could be left to control itself and so long as the nature of the economy remained that which characterized the nineteenth century, this type of "automatic" control operated with a high degree of efficiency. This automatic control through the free market not only controlled commodity prices but all the other essential elements in the economy as well, including wage rates, interest rates, saving and capital investment.

The automaticity of control afforded by the free market of the laissez-faire economy depended upon the existence of a multiplicity of competing units, the production of no one of which should be determinative in affecting market price. Having given circumstances which made possible an economic mechanism of such flexibility and automaticity, not only were existing human and natural resources, processes and systems of organization of production exploited with unprecedented success, but new processes of production and types of organization of production were con-

stantly developed. The new processes of production, involving large-scale methods, and the new types of organization of production, reciprocally generating each other, began to act with gradually accelerating force upon the very economic structure which had given them birth.

The development of corporations, of a banking system, of holding companies, trade associations, labor unions, inevitable results as they were of the large-scale productive process, as inevitably produced an economy which was no longer controlled, and *could* no longer adequately be controlled, by a free market because the market for a greater and greater number of commodities progressively lost its freedom. As the number of free markets began to decrease, and as the degree of freedom in those which remained steadily diminished, the cry of "Monopoly!" was heard in the land. Yet the nature and significance of this emasculation of the free market was quite generally overlooked.

Men thought of the doctrine of the free market in terms of absolute monopoly vs. absolute competition and they believed that the danger of monopoly lay in higher prices which the monopolist would inevitably charge. There was little realization of the fact that no formal monopolistic organization or even agreement was necessary to produce a quite different type of pricing process for a given commodity or service. Nor was it understood that the decline of the free market was not necessarily accompanied by higher prices at all. There was likewise a well-nigh complete failure to realize the effect of the decline of the free market upon the functioning of the whole economy. When the competitive pricing mechanism had been superseded for a wide range of commodities and services, indirect influences began to alter the structure of that economy.

It is this declining effectiveness of the free market as a director and regulator of the economy that has given rise to the most important and most pressing of our national economic problems.

## II

The emerging economic problems that most urgently require solution may be listed under six heads, although all six are interrelated and in some cases one of the six problems is primarily only

one of the others in a different dimension. These six problems may be listed as follows: (1) the problem of competitive versus administrative commodity prices, (2) the problem of agricultural surpluses, (3) the problem of wage determination, (4) the problem of saving and capital investment, (5) the problem of consumers' purchasing power, and (6) the monetary problem.

While these problems are not in the same category and are not coordinate, it should be particularly noted that the six exist as politico-economic problems solely because of the inability of the free-price mechanism to control the economy satisfactorily. So long as the market mechanism managed the economy satisfactorily, government did not have to concern itself very seriously with any of the six problems.[2]

### *The Problem of Competitive Versus Administered Prices*

The economies of large-scale production and the financial advantages of large organizational forms over small resulted in a situation where an increasingly larger proportion of goods produced have their prices set by administration rather than by old-style competition in the market. Under the old-style competitive conditions industries produced goods and sold them for what they would bring. Of course, if the price obtained was insufficient to pay the going rate of compensation to the factors of production, such factors were gradually withdrawn and applied to other productive uses. So long, however, as the going rate of return could be obtained, goods were produced and sold for whatever price they would bring.

It was impossible for one producer to withhold goods from the market in order to maintain prices, for under conditions of a multiplicity of producing units the amount produced by each enterprise was too small to affect the market price materially. This situation still exists in the case of farmers producing grain for the

[2] To say that the price mechanism handled the management of the economy "satisfactorily" is of course to introduce a qualitative judgment. One could say for practical purposes that the market mechanism handled the management of the economy "satisfactorily" so long as there was no mass pressure upon politicians strong enough to compel them to take some sort of action on the problems. Roughly, governmental intervention in the management of the economy constitutes evidence that the price mechanism is not handling the direction of the economy "satisfactorily."

market, for example. It obviously is no longer true of the steel industry, the automobile industry and many others. The producer of one line of automobiles knows that if he cuts the price he will not for long be able to obtain a larger share of the market for cars, for his action will compel competitors to follow his example. If prices of cars are raised it can only be done after it becomes generally known that the major producing companies are agreed on such a policy.

This is far different, be it observed, from the "Law of One Price." Even in a highly competitive market the price charged at an instant of time by all the sellers tends to be the same price, but in an industry such as the automobile industry price does not fluctuate frequently but rather remains unchanged for months on end. What is more important, price is not adjusted so that substantially all the cars that could be produced by existing facilities are sold, but production is adjusted to the number of cars that can be sold at a fixed price. During boom periods this amount of production may use substantially all the productive capacity available but during a very considerable part of the time production is much lower than capacity in industries characterized by "administered price."

It should be noted that circumstances of administered price are not caused by the machinations of "wicked monopolists." It is an inevitable development in any industry in which a few large businesses control production. Nor is it true that prices under administration are necessarily higher than they would be with a large number of competing units. In fact, in many cases administered prices are lower than they would be if prices were determined by competition between a large number of small units.

The effect of the substitution of administered prices upon the whole economic mechanism is far-reaching. One of the most important effects takes place during depression. Under such conditions goods sold on the free market fall sharply in price but production is not substantially curtailed. Goods are produced and are sold for what they will fetch on the free market. If the fall in the price of every sort of good or service was the same, the the fall in price level would not be significant for the economy. If I get half as much as formerly for everything I have to sell, this is

of small moment if I likewise have to pay only half as much for all that I buy. The old economists assumed rather generally that changes in the price level could be disregarded for this reason.

If, however, during a depression purchasing power is curtailed, the effect of the curtailed purchasing power upon goods with administered and goods with competitive prices will be quite different. In goods having administered prices, prices are lowered relatively little and prices are infrequently changed. By contrast, in these industries production is sharply curtailed. With the resulting unemployment, a cumulative decline in purchasing power takes place.

In goods produced and marketed under competitive conditions the fall of prices, while not accompanied by corresponding reductions of employment, does result in diminished purchasing power for the producer of such goods since smaller quantities of administered price goods can be purchased.

Nor is this the end of the matter. The maintenance of prices in those industries where no free market exists seriously impairs the free market mechanism for pricing productive factors such as labor and machinery. How is it possible to speak of a market rate of wages if millions of men who would be willing to work at the rates actually being paid cannot find employment? How is it possible to find an "equilibrium price" for capital equipment, a large part of which is unemployed? What does an interest rate mean when there exist both unemployed capital equipment and capital funds whose owners would be eager to lend them at the "going rate of interest" if safety of principal could be insured? How can productive resources be shifted from less productive industries to more productive uses if administration prevents the necessary flexibility of prices and leaves unused equipment in all industries? In a word, under conditions of depression at least, the existence of administered prices has the effect largely of destroying the automatic price controls of the economic system.

No more basic problem confronts us than that of the government's attitude towards administered prices versus competitive prices. Should the government attempt to enforce competition, or on the other hand should it lend its authority to aid in the administration of prices? In the utilities the answer has been the

latter. Is the system of price regulation which characterizes public utilities to be extended to cover all industries characterized by administered prices? Can the contradiction between administered prices and competitive prices be resolved by monetary means and other devices designed to raise prices on the free market during a depression to the level of administered prices? Is there any prospect at all that competition can be restored? By various anti-trust suits such as that instituted against the Aluminum Company, an attempt has been made to enforce competition. The Tydings Act providing for retail price maintenance is a step in the opposite direction. Which is the proper direction?

### *The Agricultural Surplus Problem*

The agricultural surplus problem is largely an outgrowth of failure of automaticity of adjustment in the economic system. According to the foundation stone of orthodox economics known as Say's Law the existence of such surpluses would be impossible. According to this "law" goods produced are the market for other goods. Consequently a large quantity of wheat produced would, for example, mean simply an improvement in the market for say, shoes. Upon the basis of this "law" an analysis of the forces which would prevent the existence of surpluses was developed. First it was assumed that all goods would sell at some price. This would prevent the existence of unsold surpluses. The price received for a good might, of course, be temporarily lower than that sufficient to pay the "normal" returns upon the factors employed. This could not be true of all goods, or even of most goods, however, it was argued, because low returns in one could only exist if returns were relatively too high in other industries.

We know, however, that in spite of this theoretical demonstration of the impossibility of surpluses existing, large agricultural surpluses do come into existence. Large stocks of wheat and cotton were in existence in 1933. If the mechanism of the market price had been operating as it was supposed to have operated, and indeed as it had operated in the past, the surpluses would not have accumulated. Cotton and wheat would have been sold abroad and the proceeds would have been used to purchase manufactured commodities. Tariffs and quotas, both our own and

foreign, prevented this. If price had fallen so low as to be unsatisfactory to the producers of wheat and cotton, enterprisers were supposed by orthodox economists to withdraw their capital, and laborers to withdraw their labor from the production of wheat and cotton, and the withdrawn capital and labor was supposed to be employed in producing, say, more houses and automobiles. This transfer of labor and capital did not in fact, take place. The labor which would have been withdrawn could not find employment in producing manufactured goods. The "capital" involved was primarily land which could not be shifted to any other more productive use. Hundreds of thousands of farmer entrepreneurs could not set up small enterprises to compete in modern industry. The domestic market could not replace the lost foreign market for farm products because the prices of goods produced under conditions of "administration" were not allowed to fall so as to increase the consumption of manufactured goods sufficiently to absorb increased numbers of laborers.

### *The Problem of Wage Determination*

So long as the automatic controls of a laissez-faire economy were operating effectively, the problem of wage rates, like the problem of prices for commodities, was almost non-existent as a concern of government. A problem which is the concern of government does exist at the present time primarily because of large-scale unemployment. Unemployment itself can exist, on any really considerable scale, only because of this failure of automatic controls to operate. Under laissez faire, unemployment was supposed to be impossible, because wage rates would adjust themselves so that it would always be profitable for entrepreneurs to hire all the labor that was willing to work at the going wage. If the number of workers increased so that they could not be employed at the rate of wages existing before the number of workers increased, a fall in wage rates was supposed to induce the employment of the enlarged numbers of laborers. An absolute fall in real wages was not considered necessary to employ the annual increase in worker numbers, however, since technological progress was at a rate higher than the rate of increase in numbers of workers.

During the depression, however, this automatic system of wage

determination and unemployment prevention notoriously failed to work. Labor unions, public sentiment, worker resentment, the sympathy of entrepreneurs, prevented the money rate of wages from falling to a point low enough so that entrepreneurs would have found it profitable to employ the total supply of workers. What is far more important is the fact that even if there had not been these resistances to the fall in the wage rate, no decline in wages, however great, would have made full employment possible.

This impossibility of finding a wage rate low enough to produce full employment was due to the circumstance that declining wages are very likely to cause expectation of further declines in wages and to set up similar oscillations in the prices of commodities. Under such circumstances purchasers of raw, semi-fabricated and finished goods are likely to refrain from purchases. Consequently the old automatic cure for unemployment through lower wages became ineffective. When unemployment exists on a large scale, the whole process of automatic wage determination breaks down. When there is no identity between numbers of laborers willing to work at a given wage and the number of jobs available then no "free" market price can be said to exist. Wages come to be set by a process of administration, modified by bargaining, where labor unions exist.

In the case of those industries characterized by administered prices the process of wage determination even in non-depression times is different from the automatic process of the free market. Under circumstances where the automaticity of wage-rate determination has been so seriously and generally impaired, government can with difficulty stand aloof. The existence of unemployment and the close connection between wage rates and the volume of employment renders this so if there were no other reason. The relation between wage rates and consumer purchasing power is a powerful reason for governmental concern in the problem as well. But how and at what point can government attempt to intervene? How far should intervention be carried? Should government set minimum wages and minimum wages alone? Should labor unions be allowed or encouraged to push wages in every instance as high as their bargaining strength will permit? If, at a given moment, the level of wages could be *increased* only at the expense of a pro-

portionate increase in the cost of living, what should be the responsibility of labor unions and what should be the responsibility of government with respect to labor-union policy under such circumstances? Should individual labor unions have responsibility for wages only in those industries that are easily organizable?

### *The Problem of Saving and Capital Investment*

It has been a cardinal principle of a laissez-faire economy to place almost complete dependence upon the interest rate to govern the volume of saving, the amount of capital investment and the direction of that investment. When the mechanism of automatic control worked efficiently the amount of saving was nicely equated to the amount invested. Too much could not possibly get saved by society, it was argued. If savings increased relative to the demand for capital for investment, the interest rate would fall, bringing about an equilibrium by a decline in the supply of capital saved and an increase in the demand for capital. This automatic control device of the interest rate, like the control device of commodity prices and of wages, has to a large degree lost its effectiveness. Not only does more saving, in the sense of refraining from consumption, sometimes get done than is desirable in the social interest, but the saving which does take place does not always result in greater capital investment. To illustrate the last point first. If business men are thoroughly frightened with respect to business prospects they will invest in the construction of new capital goods with the greatest reluctance, no matter how great the amount of "saving" (i.e. refraining from consumption) is. Such a state of mind of business men may be due to fear of lack of consumer purchasing, to fear of governmental policies or to many other reasons. During the declining phase of a depression increased attempts of individuals to save does not add to capital investment but instead probably deters capital investment because of the deleterious effect of the effort at increased saving upon the demand for the products of industry. The fall in the demand for the products of industry results in a diminution in the demand for capital equipment.

Under such circumstances the interest rate can no longer be depended upon as an automatic regulator. Governmental inter-

vention becomes almost inevitable. It may take various forms. The interest rate itself may be affected through operations of the central bank. The taxing power of the government may be used to affect the distribution of wealth. Dividend policies of corporations may be affected by new taxes on corporate surplus. The government may embark on vast programs of construction of public works and many other devices may be used. In any event a new domain of activity which is the province of both government and business is created and the techniques, rules, regulations, and sanctions for this domain have to be evolved.

*The Problem of Consumer Purchasing Power*

As in the case of all the other problems already discussed, the laissez-faire system of economy operated on the principle that no such problem as that of consumer purchasing power could exist. So long as the automatic machinery of that system was unimpaired this was true. So long as this machinery functioned efficiently, substantially all the goods which the economy was physically capable of producing *were* produced and there was no need for specific concern about providing the means with which consumers could buy the goods produced.

The experience of the recent depression has clearly demonstrated, however, that, under some circumstances, the capacity to produce goods exists when consumers are unable to buy the goods which would have been produced had sufficient consumers' purchasing power existed. Although much concerning the factors governing consumers' purchasing power is not understood, we now know that a balance between payments to producing enterprises and payments to consumers for services rendered to such enterprises, between saving and capital investment, between increases in production and the quantity and velocity of the circulating media, is necessary if sufficient consumers' purchasing power is to be provided and either a deficiency of purchasing power or an excess leading to inflation is to be avoided.

Under such circumstances government may take action affecting prices, wages, interest rates, monetary and banking policy, taxing policy, etc., that may have far reaching effect upon consumer purchasing power. It is probably unavoidable that some such action

be taken. But it is essential that policies and programs should be carefully matured if the government is constantly to deal with these problems.

*The Monetary Problem*

It is a striking circumstance that the laissez-faire economic system was actually able to develop a monetary system which was to a considerable degree self-managing. This is the more remarkable in that control over the issuance of the monetary medium was from a very early time recognized as a special province of government. It would, of course, have been ridiculous for each business enterprise to manufacture its own medium of exchange. This particular job was by consent of business men turned over to government. However, with the development of the gold standard the power to control the quantity of money was taken out of the hands of government and made to depend upon a purely physical factor, namely the amount of gold mined. Since expanding industrial production in the world required an expanding medium of exchange, gold filled the needs of the economy surprisingly well; while it was not absolutely fixed in quantity, the amount of newly mined gold coming onto the market every year was small enough to preserve the value of the exchange medium. Consequently business men were freed in large part from the otherwise constant danger that those in charge of the political system would yield to the temptation of manufacturing unduly large quantities of money.

Since there was no objective reason why the quantity of gold mined each year should be just the additional amount needed for monetary purposes there were frequent political battles fought over the question of whether the gold standard should be retained or not. Likewise, whenever rich new deposits of gold were discovered or when an unusually effective means of gold extraction was developed grave difficulties were encountered. Nevertheless the gold standard survived these difficulties and it was an important aid to the automaticity of the economic system, particularly in the regulation of international prices, trade and capital movements.

The gold standard was eventually destroyed, however, by the

development of demand deposits of banks, which became the principal circulating media. At first the quantity of these deposits was tied to gold, but eventually it proved to be impossible to maintain this tie-up and bank deposits replaced gold as the arbiter of the price level. Even before the gold standard was abandoned in the world the job of maintaining the tie-up between gold and bank deposits had required a high degree of management of the economy through the control of the discount rate, open-market transactions, etc., by central banks. In the absence of the gold standard, management of the monetary and banking system becomes inevitable.[3]

## III

I have painted a picture as objective as possible of the conditions which have impaired the automaticity of operation of the economy. Nevertheless the problems which would have to be solved in substituting any kind of economic planning by government are most formidable. Our system of government as it at present exists is wholly unfitted to carry out efficient direction of the economy. The separation of powers, our system of checks and balances, of judicial review, were set up to prevent the usurpation of power by the executive. It would not be too much to say that our government was almost consciously planned so that it would be unable to do more than define the structure of property and contract and provide for the defence of this structure. If the government were reorganized with the purpose of making possible efficient economic direction of the economy could our parliamentary system survive?

Another most serious problem, if the economy is to be planned by government, is that of how to protect legislators and administrators against pressure groups. The operation of economic pressure groups even now is a tremendous obstacle to efficient and just government. As the control of government over the economy increased, the intensivity of operation of these groups would increase many fold.

[3] The task of managing the monetary system is of course closely linked with all the other problems enumerated such as commodity prices, surpluses, wages, consumer purchasing power and capital investment.

I think almost anyone who had to do with the administration of the N.R.A. or the A.A.A. recognizes the stupendous task which would be involved if the government attempted to direct by administrative or legislative fiat our immense and intricate economic mechanism. Perhaps the answer is that planning should be advisory and not compulsory. If this solution is chosen, however, other problems at once obtrude.

If the economic planning of government is limited primarily to an advisory role: How will it be possible to induce private and corporate industry to act in the public interest? How would it be possible to prevent even further emasculation of competition if the government encouraged group action among industrial enterprisers?

I have baldly stated these problems without in any way attempting their answer. I can only say that the possibility for the survival of our present economic, political, and social system probably depends upon our success in solving the problems connected with introducing the minimum of political control which is essential to keep the economic mechanism operating. Economists in the future are likely to find themselves called upon to devote an even larger part of their time and energy to the solution of these cognate problems than they have in the past.

# FINANCING THE SOCIAL SECURITY PROGRAM IN THE SOUTH[1]

CLARENCE HEER

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The Social Security Act of 1935 represents an attempt on the part of the federal government to furnish protection against certain economic hazards and to finance the costs of such protection in a rational and orderly way. Whether the promotion of social security is a desirable and proper function for the federal government to assume is an issue which may now be regarded as settled. However attached we may be to the ideal of individual self-help, recent events indicate that we are willing in practice to strain every resource of government rather than to allow our fellow citizens to starve.

During the last 5 years, the federal government has spent billions of dollars for the relief of economic distress. Responsibility

[1] The factual data used in the preparation of the present survey were obtained from the following sources:

(1) Estimates by states of population 65 years or over and 16 years or under, Social Security Board, Bureau of Research and Statistics, Division of Public Assistance Statistics, *Estimates of Population and Estimates of Number of Persons Eligible for Public Assistance*, mimeographed memorandum of August 28, 1936.

(2) Number of recipients of specified categories of public assistance, also total and average monthly payments to recipients, by states, Social Security Board, Bureau of Research and Statistics, *Selected Current Statistics*, September, 1937, pp. 35, 36 and 37; also *Social Security Bulletin*, October, 1937, for statistics on South Carolina.

(3) States with approved public assistance plans and methods of financing such plans, Social Security Board, Bureau of Public Assistance, *Characteristics of State Plans for Old Age Assistance, Aid to the Blind and Aid to Dependent Children*, Publication, No.'s 16, 17 and 18, April 1, 1937; supplementary information to August 5, 1937, from unpublished data of Division of Public Assistance Statistics and legislative session laws.

(4) State general fund revenues by types of taxes, Twentieth Century Fund, Inc., *Facing the Tax Problem*, Table K, p. 534.

(5) State and local taxes for elementary and secondary schools and statistics of school enrollment, United States Office of Education, *Biennial Survey of Education, Statistics of State School Systems, 1929–30 and 1933–34*; also preliminary unpublished figures on school income from taxes and appropriations for 1935–36.

for rescuing victims of the depression and other economic maladjustments was not thrust upon the national government by virtue of any theory concerning what our central government should or should not do. The simple fact is that, in an emergency which required that the assets of the entire nation be mobilized in order to keep people alive, the federal government proved to be the only agency capable of performing this task effectively.

There is no assurance that the emergency through which we have just passed will not occur again and that the federal government will not once more be saddled with heavy financial responsibilities. It is no more than prudent, therefore, that the federal government prepare itself *now* to meet the next emergency when it comes, and that it take such steps as are economically feasible to reduce the size of our next relief bill. This is essentially the purpose behind the Social Security Act. It seeks to reduce future expenditures for emergency relief by providing protection now against certain economic hazards which are with us even in normal times. It seeks to distribute the cost of this protection through a system of taxes and contributions calculated to produce a minimum of socially harmful effects.

I

The provisions of the Social Security Act are too well known to require extended comment. They constitute a cooperative federal-state plan for the administration and financing of 5 main types of benefits—unemployment compensation, old-age benefits, old-age assistance, aid to dependent children, and aid to the blind. Under the act, the cost of providing workers with a minimum of protection against the hazards of unemployment is placed on industry through the medium of a national pay-roll tax on all employers of 8 persons or more. The old-age benefit features of the act provide in effect for a national system of compulsory old-age insurance, the cost of which will be divided between insured workers and their employers.

Coverage under the old-age benefit plan does not extend to workers in agriculture, nor to those engaged in domestic service and certain other employments. Moreover, since the benefits payable to an individual will depend upon the amount of his own

contributions, the old-age benefit plan will offer little or no protection to those who are now approaching, or who have already reached, old age. The old-age assistance sections of the Social Security Act have, accordingly, been designed to help the states to give immediate assistance to aged individuals on a basis of need. Initiative in the establishment of old-age assistance plans rests with the states. The federal government, however, undertakes to bear one-half of the cost of all old-age assistance payments made under approved state plans up to a maximum federal contribution of $15 per recipient per month. Funds for the financing of old-age assistance payments are raised through general taxation. The Social Security Act does not specify in what proportions old-age assistance costs shall be divided between the states and their local political sub-divisions. To be approved by the Social Security Board, however, a plan must provide for at least some degree of state financial participation.

Substantially similar to the provisions for old-age assistance are the provisions for aid to dependent children and aid to the blind. The federal government stands prepared to contribute toward the cost of each of these types of benefits, provided the states assume the initiative in setting up state-wide plans which meet the approval of the federal Social Security Board. As regards aid to dependent children, the federal government undertakes to supply a third of all sums expended under an approved state plan up to a maximum federal contribution of $6 per child per month. As regards aid to the blind, it offers to contribute half of all payments made up to a maximum of $15 per month per recipient.

The issues raised by the Social Security Act at the present time do not hinge around the question of whether governmental action to promote social security is or is not desirable. As has already been indicated, that question has been settled. The issues which remain relate to specific provisions of the act and to questions of method and procedure. When the Social Security Act was passed two years ago, we had almost no previous experience with the operation and effects of legislation of this character. Under the circumstances it would be a miracle, indeed, if all of the present provisions of the act should prove in practice to be perfectly adapted to the ends they are designed to serve. Those who are

in sympathy with the major purposes of the Social Security Act will, accordingly, critically observe its workings during these first years of its operation, and they will not hesitate to make constructive suggestions for change whenever experience reveals unanticipated weaknesses in any of its provisions.

It is unnecessary to point out in this connection that no aspects of the social security program will require more careful observation and study than the methods by which various types of benefits are financed and the effects which these methods have on the general public welfare. The benefits provided under the Social Security Act are clearly desirable, but whether these benefits actually produce a net balance of social gain will depend upon the manner in which the funds to pay for them are raised.

## II

As economists interested primarily in the problems of the South, we need not for the present concern ourselves with the financing of old-age benefits and unemployment compensation, since both of these types of benefits are in effect supported by national taxes and raise no problems peculiar to the South. As has been previously indicated, however, the Social Security Act contemplates that one-half of the cost of old-age assistance and aid to the blind and two-thirds of the cost of aid to dependent children be supplied by the states or by the states and their local sub-divisions. The states are under no compulsion to set up plans providing for these three categories of assistance. They are free to fix their own scales of benefit payments, and may raise the funds to finance these payments in whatever ways they choose. It is thus apparent that the public assistance provisions of the Social Security Act leave room for wide interstate and inter-regional differences, both as regards the degree of protection afforded by the act and as regards the social effects of the fiscal methods used. This consideration gives point to a survey of the financial aspects of the social security program in the South.

For the purposes of this survey the South has been taken to mean the block of 11 states comprising Virginia, the two Carolinas, Georgia, Florida, Kentucky, Tennessee, Alabama, Mississippi, Louisiana, and Arkansas. Before reviewing the ways in which

these Southern states are financing their share of the public assistance program, it will be profitable to give some attention to certain related matters. First, to what extent have the Southern states cooperated with the federal government by adopting approved plans for each of the three categories of public assistance? Second, how liberally are the Southern states supporting their public assistance plans, as evidenced by the ratio of benefit recipients to the total population of eligible age, and by the average size of the benefits paid per recipient? Finally, what will be the probable total cost of state public assistance plans when these plans reach something like their full stride, a year or two hence?

As regards the first of these questions, the available data would seem to show that the South has been somewhat slower than the rest of the country in adopting approved public assistance plans. Of the 11 Southern states, all but one, Virginia, now have approved plans for old-age assistance. Only 7 Southern states, however, have as yet adopted approved plans for aid to dependent children and for aid to the blind. The 4 states in which the latter types of plans are still lacking are Virginia, Kentucky, Florida and Mississippi. Reduced to percentages, the compliance ratio of the South in respect of old-age assistance is 91 per cent as compared with a ratio of 100 per cent for the remainder of the United States. In respect of aid to dependent children and aid to the blind, the Southern compliance ratios both stand at 64 per cent as compared with ratios of 78 and 81 per cent respectively for the rest of the country.

The best measure of the relative liberality with which public assistance plans are being administered in the South is supplied by current statistics of old-age assistance. This form of relief represents the most costly item in the public assistance program and in most Southern states accounts for more than two-thirds of all payments made. In only 5 of the 10 Southern states having old-age assistance plans have those plans been in operation for as long as a year. Little importance may, therefore, be attached to the present ratio of pension recipients to the total population 65 years of age or over. It is significant, however, that in only one of the 5 Southern states which adopted old-age assistance plans as early as 1936 is the present ratio of pensioners to the population

over 65 years of age below 20 per cent. Louisiana, with a ratio of 26 per cent as of July, 1937, has at present the highest relative number of pensioners. Kentucky comes next with a ratio of 22 per cent.

The ratios just cited should not be taken as indicative of the possible limits to which the relative number of pensioners may ultimately rise. The possibilities in this direction are revealed by the experience of Oklahoma, where 59 per cent of all persons 65 years of age or over are recipients of old-age assistance. Other states which are giving assistance to a relatively large proportion of their aged citizens are Texas, with a ratio of 44 per cent, and Minnesota, with a ratio of 33 per cent. All told, there are 11 states in the country in which the ratio of old-age pensioners to the total population 65 years of age or more is now above 25 per cent.

If all of the 11 states of the South are taken as a unit, it will appear that only 10 per cent of its residents 65 years of age or over are as yet in receipt of old-age assistance. The comparable ratio for the rest of the United States is 20 per cent. The lower Southern ratio is, of course, due to the tardiness with which old-age assistance plans were initiated in the South, and a rapid rise may be expected in the months immediately ahead.

Although there is reason to believe that the relative number of old-age pensioners in the South will soon approach and perhaps exceed the average for the rest of the country, there is little likelihood of a corresponding approach toward parity in the matter of average pensions paid. Average payments per recipient in the South already show signs of becoming stabilized at comparatively low levels. The average old-age assistance benefit paid by Mississippi in July, 1937, amounted to only $4.25 per recipient. In all other states of the South, however, the average was between $9 and $12.50 per recipient, the latter amount being paid by Tennessee.

For the South as a whole, the average old-age benefit payment amounted to $9.50 per recipient as compared with an average of $19.50 per recipient for the remainder of the United States. It may be noted in passing that there is an even greater disparity between the South and the rest of the country as regards aid to

dependent children, the average payment per child in July, 1937, being about $5.40 in the Southern states as compared with an average of $13.50 per child for the remainder of the states.

At present rates of expenditure the total state and local cost of supporting all three types of public assistance in the South is not running much beyond an average of $1,300,000 per state per year. Present rates of expenditure, however, mean very little since most of the state plans are not yet fully under way. It is reasonable to assume that within the next two years about 25 per cent of all persons 65 years of age or over in the South will be on the pension rolls, and that 2 per cent of all Southern children under 16 years of age will be in receipt of dependency aid. If this assumption proves correct, and if all of the Southern states adopt all three types of public assistance plans, the total cost of such plans to the states and localities, on the basis of their present scale of benefit payments will range above $3,750,000 per annum in Georgia and Tennessee; between $3,000,000 and $3,500,000 per annum in North Carolina and Kentucky; between $2,500,000 and $3,000,000 per annum in Virginia, Alabama and Louisiana; and between $1,500,000 and $2,000,000 a year in South Carolina, Florida and Arkansas.

An approximate idea of what these costs will mean may be obtained by relating them to the sums which the various Southern states raised through taxation for the support of their public schools in 1936. If this is done, it will be seen that prospective public assistance costs will amount to 20 per cent of the cost of public schools in Georgia and Tennessee; to about 16 per cent of school costs in Kentucky and Alabama; and will range from 9 to 15 per cent of school costs in all of the remaining Southern states.

## III

It is apparent that the social security program imposes a heavy burden on the South, and this fact increases the potential harm which may result from irrational methods of financing it. How is the program being financed? An initial point to consider is the division of costs between the states and their local political subdivisions. The South shows no significant difference in this respect from the remainder of the United States. Five states,

South Carolina, Florida, Kentucky, Mississippi and Arkansas, provide for complete state support of all phases of the security program. In Georgia the counties contribute a fifth of the total state and local share of public assistance costs; in Tennessee the counties contribute a quarter of such costs; while in North Carolina, Alabama, and Louisiana they contribute half of the costs. Since local tax sources are strictly limited, county support means, in the main, support through the general property tax. In Louisiana, however, parish contributions are financed through special taxes on amusements and gasoline; and in Alabama, county contributions are obtained in part through gasoline taxes.

As regards state financing, in three states of the South, all or part of the yields of certain state taxes have been specifically allocated to finance the security program. These earmarked taxes include a chain-store tax and license taxes in Tennessee; taxes on soft drinks, luxuries, and natural gas in Louisiana; and taxes on chewing gum, slot machines, horse racing, and a portion of the sales-tax receipts in Arkansas.

A majority of the states of the South are defraying their share of the costs of the social security program from general fund revenues. The economic and social effects incident to the financing of these costs are, therefore, inseparable from the effects associated with their general schemes of taxation. In marked contrast to the tax system of the federal government, which raises huge sums through progressive income and inheritance taxes, the tax systems of most of our state governments tend to be regressive, being heavily weighted with taxes which enter into the cost of living. This regressive tendency has become more pronounced in recent years as a result of the extreme lengths to which the states have had to go in order to maintain their revenues during the depression.

State income taxes spread rapidly during the depression and are now in effect in 29 states. In very few of these states, however, has the income tax turned out to be an important source of revenue. The outstanding event in the recent annals of state finance has been the discovery of the rich revenue-yielding possibilities of the retail-sales tax. There has also been a decided increase in the use of special-commodity and so-called nuisance taxes, including taxes on liquor, tobacco, soft drinks, theatre admissions and other indulgences of the masses.

Because of the low average level of income in the South, the predominance of agriculture, and the threat of interstate tax competition, the Southern states in particular have not been able to raise much revenue from the so-called ability taxes and have been forced to adjust their tax systems to reach down to the little man. Inheritance and income taxes accounted for only 15 per cent of the combined general fund receipts of the 11 Southern states in 1936. General sales, liquor, and tobacco taxes, on the other hand, accounted for 33 per cent of the total receipts. It is recognized that the general property tax, when used for state purposes, bears with disproportionate severity upon the farmer whose average income is low. Approximately 23 per cent of the general fund revenues of the 11 Southern states was raised through property taxation in 1936.

To the extent that the social security program in the South is being financed through increased taxation, it is evident that a large part of the needed revenue is being raised through taxes which bear regressively on the poor. There is the possibility, of course, that public assistance funds are being obtained, in part at least, at the cost of other governmental services. The fear has been expressed, for instance, that the new fiscal burdens imposed by public assistance plans may operate to retard the restoration of school budgets to their pre-depression levels. In this connection, it is worth noting that the total amount of tax revenue raised for elementary and secondary schools in the 11 Southern states in 1936 was still 8 per cent below the amount raised in 1930, although school enrollment had in the meantime grown by over 5 per cent. It is also worth remembering that the Southern states still stand at the foot of the scale as regards school expenditure per pupil.

## IV

There is unfortunately no common denominator of social welfare which will enable us to measure the real gains afforded by the public assistance program in the South against the untoward effects of the present methods of financing it. Who can say, for instance, whether society gains or loses when, in order to give one aged person a pension of $120 per year, it takes $2 apiece from 60 families subsisting on incomes of $400 per year? We can, however, say with certainty that the net gains obtainable from the social

security program in the South would be greatly enhanced, if the program were not so largely financed through taxes which fall on the very poor.

There is little that the Southern states can do by themselves to better this situation. In an age of specialization and large-scale production, wealth and income tend to concentrate in a few limited areas. No predominantly agricultural states have as yet succeeded in raising any significant proportion of their revenues through progressive income and inheritance taxes. The South, it is true, is becoming industrialized, but the very mobility which enables industries to come to the South is a characteristic which invites other areas to lure them away with the bait of low taxation.

If the states can do little to secure a better distribution of the costs of the public assistance program, can anything be done by the federal government? The Supreme Court has in effect declared that the promotion of social security is a matter of national concern. The Social Security Act is a federal measure and federal taxes are being used to finance nearly half of the cost of state public assistance programs.

Under the present provisions of the act, federal grants to the states for public assistance are made on a matching basis. This means that California, which pays an average old-age pension of $31 per month, receives 7 times as much per pensioner from the federal government as does Mississippi, where the low average of $4.25 per month is paid. But California is able to pay a high average pension with relatively slight financial effort because its taxable capacity is high and Mississippi is forced to pay an inadequate pension, which nevertheless involves considerable financial effort, because its taxable capacity is low. The present basis of distributing federal funds for public assistance thus constitutes a reversal of the ability formula.

To carry out the underlying purposes of the Social Security Act, it is clearly necessary that certain minimum standards of public assistance be maintained throughout the United States. Moreover, since the maintenance of these minimum standards is a matter of national concern, they should be financed in such a way as not to impose unequal burdens on different parts of the country. In view of the existing differences of taxable capacity among the

several states, it will obviously be impossible to satisfy these two requirements as long as the present basis of distributing federal public assistance grants is retained.

Under present conditions, nation-wide minimum standards of public assistance involving no interregional inequalities of tax burdens would seem to be attainable only through some application by the federal government of the equalization fund principle, which has long been used in connection with the distribution of state-aid to local schools. Substitution of the equalization fund plan for the present basis of matched grants would not require any increase in the total amount of federal funds to be distributed. It would merely require that the same amount of funds be distributed among the states in a different way.

Practical techniques for measuring the relative taxable capacities of the several states have already been worked out by specialists in public school finance. It ought not to be too difficult to devise indices of the relative cost in each state of supporting a minimum program of public assistance. Federal funds might then be apportioned among the states on the basis of the ratio which the cost of supporting the minimum program in each state bears to that state's taxable capacity. This method of distribution would permit states with relatively large needs for public assistance and relatively small means to support a defensible minimum program without being compelled to skimp on other necessary public services, or to resort to regressive types of taxation.

The states of the South have a special interest in the proposed change in the method of distributing federal funds which has nothing to do with the fact that their taxable capacity is low. The need for protection under the old-age assistance provisions of the Social Security Act will ultimately be narrowed down to workers in agriculture and domestic service, since workers in other employments will, in time, receive protection in their old age through the operation of the contributory old-age benefit plan. Approximately 54 per cent of all workers in gainful occupations in the South are engated in agriculture and domestic service as compared with a ratio of only 26 per cent for the rest of the country. Even after payments under the old-age benefit plan reach a normal level, the requirements for old-age assistance in the South

will consequently continue to be heavy and will in fact be relatively twice as great as in the remainder of the country. Similar considerations apply in the matter of aid to dependent children. The South has a higher proportion of children under 16 years of age than any other section of the United States and this circumstance will correspondingly increase the relative cost of its child-aid programs.

In view of the facts which have just been reviewed, it is perhaps superfluous to observe in conclusion that, if the purposes of the Social Security Act are not to be frustrated, it will be necessary for the federal government to abandon the present matching basis of distributing federal funds in favor of some form of the equalization principle. If this is not done the security program in the South may turn out to be little more than a sham, the financing of which will nevertheless cause considerable harm to this region.

# RECIPROCAL TRADE AGREEMENTS AND THE SOUTH

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The Reciprocal Trade Agreements Act, which has been the chief instrument of United States foreign trade policy for the past 3 years, became law on June 12, 1934, and was extended in 1937 for an additional 3 years. The situation which created an imperative need for this legislation, and the fundamental principles underlying it, have been so widely discussed as hardly to need repetition. Many nations were unable to restore their foreign trade to its normal volume because of currency depreciation and a breakdown in foreign exchange mechanism; on the other hand, they were unable to stabilize their currencies and exchange because of disjointed trade. In addition to pre-existing tariff barriers, there were growing up systems of exchange control, clearing and compensation agreements or barter arrangements, import quotas, and with reference to some commodities, nearly complete embargoes in certain countries. A growing tendency toward bilateral balancing of trade made the situation still worse. Every nation professed to deplore the situation, declaring itself the victim of circumstances, yet the adoption of new restrictions continued.

World trade declined from $68,622,000,000 in 1929 to $26,848,000,000 in 1932, while the United States foreign trade fell in the same years by an even greater proportion, i.e. from $9,640,000,000 to $2,934,000,000. Although our foreign trade accounted for only about 10 per cent of our total trade, the dependence of many branches of industry and agriculture on exports was far greater than that. Indeed, the disposal of agricultural surpluses had become one of our chief national problems.

## I

The traditional position of the South as a great exporting section has created for it an especial interest in the success of the reciprocal

trade agreements program. Normally at least one-half the cotton crop, one-third of the leaf tobacco, one-half the phosphate rock and naval stores, large quantities of Southern pine lumber, citrus fruits, apples, nuts and many kinds of manufactures of the region, are exported. It is true that recent years have witnessed a remarkable growth of manufacturing and considerable diversification of agriculture in the Southern states. The increase of subsistence farming in many sections of the South, particularly the Delta section, is well known. It seems not unlikely that the trend toward diversified agriculture will continue, and the great natural and human resources of the South certainly afford ample opportunity for the further development of manufactures. It would be idle to predict the effect of such changes on the future position of American cotton and tobacco in world markets, or to forecast changes in foreign production of those commodities. However, the reciprocal trade agreements program is based on principles that make it good national policy and, even with a trend toward manufacturing and diversified agriculture in the South, that region will still be at least as much interested in a liberal trade policy as the rest of the country. It is in order, therefore, to discuss the features of the act which make it good national policy before treating those aspects which are of especial interest to the South.

Under the provisions of the Reciprocal Trade Agreements Act,[1] the President has the authority to enter into trade agreements with foreign governments when he finds that existing duties or other restrictions are unduly burdening the foreign trade of the United States. He may proclaim such modifications of existing duties and other import restrictions as are necessary to carry out these agreements. No proclamation shall be made increasing or decreasing by more than 50 per cent any existing rate of duty or transferring any article between the dutiable and free lists. Before concluding such agreements, the President is required to seek information and advice in respect thereto from the United States Tariff Commission, the Departments of State, Agriculture, and Commerce and from "such other sources as he may deem appropriate."

Up to the first of November, 1937, agreements with 16 countries

[1] "An Act to Amend the Tariff Act of 1930" (Public No. 316, 73rd Cong., H. R. 8687).

had been concluded under the terms of this act. The first, that with Cuba, went into effect on September 3, 1934; those with Belgium, Sweden and Haiti during 1935; those with Canada and Brazil on the first of January, 1936; those with France (including all French possessions, except Morocco), the Netherlands (including Netherlands East and West Indies and Surinam), Switzerland, Finland, Colombia, Guatemala, Honduras, and Nicaragua, during 1936; while those with El Salvador and Costa Rica went into effect during 1937. Something over a year is, therefore, the

IMPORTANT EXPORTS FROM THE SOUTH AND BENEFITS RECEIVED IN TRADE AGREEMENTS
TO OCTOBER 15, 1937

| COMMODITIES | AGREEMENTS | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Cuba | Belgium | Haiti | Sweden | Brazil | Canada | Netherlands | Switzerland | Honduras | Colombia | Guatemala | France | Nicaragua | Finland | Costa Rica | El Salvador |
| Raw Materials & Foods | | | | | | | | | | | | | | | | |
| Raw Cotton | □ | | | □ | | □ | □ | □ | | | | | | □ | | |
| Leaf Tobacco | ■ | □ | | | | | □ | | | ■ | □ | | | | | |
| Canned Grapefruit | ■ | ■ | | ■ | ■ | ■ | □ | ■ | ■ | ■ | □ | | ■ | ■ | ■ | |
| Oranges | | | | | | ■ | | | | ■ | □ | ▲ | | | □ | |
| Lard | ■ | ▲□ | | | | ■ | △□ | ▲■ | | ■ | □ | | ■ | | ■ | |
| Canned Shellfish | ■ | | | | | ■ | | ■ | | ■ | ■ | ■▲ | | | ■ | |
| Rice | ■ | □ | | □ | | ■ | △□ | □△ | | | | ■ | | | | |
| Raw Phosphate | | | | □ | | | | | | | | | | | | |
| Sulphur | | | | □ | | | □ | | | | | | | | | |
| Manufactures | | | | | | | | | | | | | | | | |
| Softwood Lumber & Timber | ■□ | ■ | | | | ■□ | □ | ▲□ | □ | □ | | ▲ | | | ■ | |
| Naval Stores | | □ | | □ | ■ | | □ | | | □ | | ■ | | | ■ | |
| Iron & Steel - | | | | | | | | | | | | | | | | |
| Plates & Sheets | ■ | | | | | ■ | | | | ■ | | ■ | | | | |
| Pipes & Fittings | ■ | | □ | | | ■ | | | | □ | | ■ | | | | |
| Cotton Yarn | □ | | | | | ■ | | | | □ | □ | ■ | | | | |
| Selected Cotton Fabrics | ■□ | | | | | ■ | △ | | ■ | ■□ | □ | ■ | | | | |
| Rayon Fabrics | ■ | | | | | ■ | △ | | | | | ■ | | | | |
| Harvesting Machinery | ■ | | | □ | □ | ■ | | | | □ | | ▲□ | | | | |
| Gasoline | □ | | | □ | | ■ | | ▲ | | | | | | □ | | |

■ Reductions in Duty ▲ Improvements of Quota or Other Non-Tariff Provisions
□ Bound Free or Bound at Previous Rate of Duty △ Bindings of Quotas or Other Non-Tariff Provisions

FIG. 1

average length of time the agreements have been in force, which, it must be conceded, is rather a short period from which to draw conclusions as to their effect on trade. However, certain outstanding results deserve mention.

A substantial portion of our foreign trade is carried on with the countries with which agreements have been concluded. They furnished 38 per cent of United States imports in the years 1926–30; 42 per cent in 1935; and 43 per cent in 1936. The same countries took 37 per cent of our exports in 1926–30; 34 per cent in 1935; and 36 per cent in 1936. In the first 8 months of 1937, they fur-

nished 40 per cent of our imports, and took 38 per cent of our exports.

The agreements with Canada and Cuba have resulted in a great increase in trade between our neighbors and ourselves, and have resulted in much more cordial relations. The agreements with the Central and South American countries, which consisted, on our part, mostly in binding on the free list such articles as coffee, cocoa beans, bananas, tropical woods and nuts, sisal and kapok, certain furs and skins, and other typical products of those countries, have at least assured them that we do not intend to adopt the policy of bilateralism to force them to buy enormously increased amounts of our products in order to retain their markets in this country. In return, they have granted substantial reductions in duty on a large number of our exports to them. Colombia, for example, granted reductions averaging 46 per cent of the previous rates on a considerable list of articles. France, Switzerland and the Netherlands liberalized their quotas on American products, while we reduced rates many of which varied from 50 to 150 per cent.

The total number of United States tariff rates reduced in all the agreements so far concluded is (eliminating duplications) 462[2] out of a total of about 3,200 rates in the Tariff Act of 1930. Comparing trade figures for the first half of 1937 with those for the first half of 1935, we find that imports of articles on which duties have been reduced (not including certain composite groups on only part of which were the duties reduced), increased from about $92,000,000 to about $157,000,000, or 71 per cent. Articles on the free list—largely coffee, cocoa beans, bananas and raw materials for industry—increased 62 per cent. Dutiable articles unaffected by trade agreements increased by 86 per cent, but more than half of this increase was in raw wool and other materials for industry, semi-manufactures, and corn and other feed-stuffs of which there was a shortage because of the drought.

## II

There may be some skepticism about the formation of a judgment, at this early date, as to the success of the trade agreements

[2] U. S. Tariff Commission bulletin, "Changes in Import Duties Since the Passage of the Tariff Act of 1930" (Jan. 21, 1937).

program. United States imports and exports have increased, as has world trade in general, and just how much of this increase is due to the trade agreements program cannot be determined. The effect of concessions by foreign countries on our exports cannot be traced in all cases because of lack of separate classifications for all items. However, the trade with certain countries, and in individual commodities, shows very plainly the favorable influence of the program. Moreover, the success of the policy is not to be measured altogether by the directly traceable effects. As things were going, in 1932 we were faced with the prospect of being "frozen out" of many foreign markets, and that catastrophe has been averted. The psychological attitude of foreign buyers toward United States products is an intangible but real factor in the situation. In the years 1931 to 1933 this attitude certainly was not helpful to us in extending, or even maintaining, our trade, but there are unmistakable signs that it has changed for the better.

The new policy is in conformity with the creditor position of the United States. It has been said that Great Britain acquired a world empire in "a fit of absence of mind." It might be said that the United States has become a great creditor nation while the majority of its citizens were "looking the other way." Alarm has been expressed in some quarters about the greater increase in our imports than in our exports, but to economists this is a healthful sign. To accept merchandise imports is a better way to increase our national wealth than to add to our stocks of gold. Larger imports, moreover, are evidence of the increasing industrial activity and prosperity of the country.

Because of the world situation, the reciprocal trade agreements program, affording an opportunity to deal with each country separately, securing *quid pro quo* for our concessions, has been a better policy for the United States than unilateral downward revision of the tariff. Notwithstanding the fact that tariff barriers are still the greatest impediment to world trade, non-tariff restrictions in foreign countries have multiplied enormously and have been administered with such varying emphasis that special negotiations with almost every nation are necessary to get trade moving in normal channels again. Immediate downward revision of the tariff would have been a less effective method of liberalizing

trade, and the readjustments in our own economic system might have been somewhat disturbing.

Generalization of concessions, under the unconditional interpretation of the most-favored-nation clause, has not involved uncalled-for generosity on our part, because of the rule of granting reductions to the principal supplying country. In return for our adherence to this principle we have received many concessions we did not directly pay for. Although, as a precautionary measure, sub-classifications have been granted for some articles on which duties have been reduced, the practice has not been pursued so far as to negate the principle of generalization.

The trade agreements program has been carried out by a method that marks an advance in scientific tariff making, and conforms to a tendency in the public regulation of economic activities that has been growing for a generation—the tendency for Congress to lay down a guiding principle, the application of which, in detail, is left to the Executive. The growing complexity of economic relationships, both national and international, makes it almost inevitable that this method should be increasingly adopted.

The main criticism of opponents of the measure has been that the negotiation of agreements was shrouded in secrecy. The present method is not essentially different from congressional revision, with respect to public hearings and the submission of briefs by interested parties. This criticism of secrecy has been met, so far as it might have had any justification, by the policy of giving advance notice of the commodities on which concessions may be made. The word "bureaucratic" has been used to describe it, but it may be noted that efforts of government officials to protect the public against political pressure-groups are often characterized as "bureaucratic."

Such exhaustive studies of trade and tariff data have been made by the agencies charged with the preparation of basic data that some of the foreign negotiators have expressed amazement at the completeness of the information available to our negotiators. The thoroughness of this work is attested by the lack of serious criticism of the reductions in rates that have been made.

## III

Coming to the consideration of those aspects of the trade agreements program that are of especial interest to the South, we may ask, what has the reciprocal trade agreements program done for cotton? With none of the three countries to which we have sold the largest amounts of cotton in recent years—Great Britain, Germany and Japan—have we as yet concluded trade agreements. Obviously, the answer must be that, with the increase in world trade and restoration of prosperity, it will become possible for other countries to buy more American cotton and use more cotton goods made from American cotton, at higher prices.

The greatest gain to American cotton growers comes from the fact that, by a liberal tariff policy, we refrain from the encouragement of high-cost marginal domestic production of manufactured goods which the cotton growers must buy. A closer approach toward parity between the export price of cotton and domestic prices of articles of plantation consumption would be the most substantial benefit the trade agreements program could confer on the South.

While the major benefits which cotton growers may expect from the program are, therefore, indirect, some direct benefits may be cited. Cuba, Sweden, Canada, the Netherlands, Switzerland, and Finland have guaranteed the present favorable treatment of raw cotton. Cuba reduced the duty on cottonseed oil and cake; Sweden bound cottonseed cake on the free list, and Guatemala granted a 50 per cent reduction in the rate on cottonseed oil. Concessions also have been obtained on cotton textiles, including duty reductions, increased margins of preference for American products (in the agreement with Cuba), increased quotas and the binding of duties against increase. Canada, Cuba, and France, for example, made substantial cuts in the duties on our cotton yarns, selected cotton fabrics, cotton and rayon mixtures and other cotton manufactures. Honduras cut the duty on denims by 36 per cent; Colombia reduced the duty on canvas; and other similar concessions have been secured.[3]

[3] U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce, Division of Foreign Tariffs, "Important American Export Products Benefiting from the Reciprocal Trade Agreements signed up to May 1, 1937."

In the case of tobacco, as in that of cotton, the major benefit to exporters will come from the general restoration of prosperity and increased purchasing power in foreign countries, for the reason that the duties (or state-monopoly margins) of most foreign countries are intended, not for protection, but for revenue and therefore cannot usually be reduced. Certain direct gains, however, have been made. The duty on leaf tobacco has been cut in the agreements with Cuba and Colombia; bound against increase in those with Belgium, the Netherlands, and Guatemala; while a quota for 1936 was assured by the agreement with France.

Citrus fruits are important in our export trade and every effort has been made to secure advantages for them. Concessions on citrus fruits, fresh and canned, have been obtained in 14 of the 16 agreements thus far made. Eight countries, including Canada and France, have granted us concessions on fresh grapefruit; 13 countries on canned grapefruit, and 5 countries on oranges. Exports of fresh oranges and grapefruit to Canada were 3,048,000 boxes valued at $7,669,000 during the first year the agreement was in force, compared with 2,795,000 boxes, valued at $6,737,000 in the previous year. Exports of grapefruit to Sweden and Belgium also increased markedly after the agreements were concluded.

Almost all of the agreements include concessions by the foreign countries on fresh apples, including some very substantial reductions in duty, and, in the case of France, an increase of 50 per cent in our quota allotment. Canned fruits, including peaches, pineapples, pears and apricots, have been liberally treated. Cuba and Canada admit nuts at much more favorable rates than before.

A long list of other typically Southern products, which have received attention in various agreements, could be given. Turpentine, rosin and naval stores, phosphate rock, lumber and timber and products thereof, such as box shooks and cooperage stock, are examples. During the first year of the Cuban agreement our exports of Southern pine boards to that country increased from 23,000,000 feet to 34,000,000 feet, while during the first year of the Belgian agreement our exports to that country of sawn wood increased in value from $1,800,000 to $2,100,000. Concessions have been obtained on Southern manufactures such as rayon, knit goods,

men's work clothing, iron and steel products, machinery, and articles coming in the hardware category, such as stoves and ranges.

IV

It would not be fair to pass without mention two Southern products on which concessions that might cause criticism have been given, namely, fresh vegetables and sugar. In the agreement with Cuba, effective on September 3, 1934, the United States made seasonal reductions on 8 fresh vegetables—tomatoes, potatoes, peppers, lima beans, okra, cucumbers, squash, and eggplant. On tomatoes, peppers and squash the duty was reduced by one-fourth of the previous rate and on the other items by one-half. The reductions were limited, however, to the winter and spring months when relatively small quantities of the domestic vegetables are coming on the market. In the 3 years since the agreement was concluded, imports of these vegetables from Cuba have increased somewhat, particularly the imports of tomatoes, which averaged 1,336 cars a year in the 3 years before the agreement and 2,116 cars in the last 3 years. Nevertheless, the Florida acreage, both planted and harvested, of these vegetables, has increased substantially in the last 3 years—acreage planted by 27 per cent and acreage harvested by 20 per cent.[4] However, due to weather conditions, the production has averaged 8 per cent less than in the pre-agreement years. Imports of tomatoes from Mexico, which did not benefit from the reduction granted to Cuba, have averaged less since 1934 than in the years 1931 to 1934. The seasonal difference in the peak of shipments from Florida and Cuba greatly modifies the competition. The farm prices of these vegetables have averaged higher to Florida growers than before the Cuban agreement and the total income from the 3 most important crops—tomatoes, green beans and potatoes—averaged higher. Moreover, Cuba in turn granted the United States seasonal reductions on potatoes and onions, our exports of which, to Cuba, have increased greatly.

But it is when we turn to the agreement with Canada that we

[4] U. S. Department of Agriculture, Bureau of Agricultural Economics, "The Florida Winter-Vegetable Industry and The Trade Agreement with Cuba" (August, 1937).

find the greatest advantage gained by vegetable growers of the United States. The Canadian system of levying duties on vegetables is too detailed to describe in a paper of this scope. It suffices to say that not only has Canada granted the United States a long list of concessions on fresh and canned vegetables, but has modified the administrative features of her tariff greatly to our advantage. Our net gain from these agreements is indicated by the fact that in 1936 Canada imported from the United Sates $2,520,000 worth of vegetables of which the South is an important producer and on which duty concessions had been granted us. This list includes all of the varieties on which we granted seasonal preferences to Cuba. Imports at trade agreement rates of these same items, mainly from Cuba, came to only $1,067,000 worth in the same year.

The sad plight of Cuba, (chiefly attributable to reduced output and low prices of sugar) and the enormous decrease in our exports to the island, prior to the trade agreement of 1934, are matters of common knowledge. The rate on Cuban sugar, of 96 degrees polariscopic test, was reduced from 2 cents per pound to 1½ cents per pound on June 8, 1934, after an investigation of comparative costs by the United States Tariff Commission under the flexible provision of the Tariff Act of 1930. The rate was further reduced to 9/10 of a cent per pound in the trade agreement, this rate being made dependent on the continuance of the quota plan put into effect by the passage of the Jones-Costigan Act and renewed in the Sugar Act of 1937. Sugar producers of continental United States are probably, on the whole, satisfied with an arrangement which stabilizes price and production. The quota of cane sugar for continental United States has been raised from 260,000 tons in 1935 to more than 400,000 tons for the current year. Substantial benefits will probably accrue to sugar producers under the terms of the Soil Conservation Act.

It seems almost unnecessary to call attention to the benefits to our export trade that have come with returning prosperity to Cuba. The value of American exports to Cuba increased from $35,000,000 to $55,000,000, or by 57 per cent, during the first year of the new agreement and during the second year they increased to $64,000,000, or by 83 per cent over the preagreement period.

Among the concession items which showed substantial increases were lard, bacon, hams and shoulders, white potatoes and onions, canned fruits and, among industrial articles, automotive products, radio apparatus and electric refrigerators, sugar mill machinery, sewing machines, typewriters, textiles, leather, paper and many others.

Exports of milled rice to Cuba were negligible, just prior to the agreement, but amounted to $978,000 during the first year and to $843,000 during the second year of the agreement. Some increase was registered by canned peas, corn, and asparagus, on which the duties were reduced. Shipments of apples, pears and grapes, on which the duty was bound, also increased. The benefits of the Cuban agreement have certainly accrued in at least as great degree to the South as to any other part of the United States, and have exerted a favorable influence on the activity of Southern ports.[5]

One of the principal aims of the reciprocal trade agreements program has been to contribute toward the restoration of tranquility in the world by removing economic "bones of contention" and diverting the nations toward peaceful trading instead of economic imperialism. The goal is far away to be sure, but we have at least moved toward it in that part of the world where our influence is most immediate, the Western Hemisphere, through the trade pacts with Canada, Cuba, and the South and Central American republics. The economic interests of Canada and Cuba particularly, are so closely interwoven with our own that this achievement is, in itself, enough to justify all of the effort that has been expended upon the program.

It may be necessary, in developing the trade agreements program to undergo some local and temporary inconveniences; one cannot be in close touch with the activities of the government in Washington for long without being deeply impressed by the great variety of interests, both sectional and occupational, represented there. However, we cannot afford to be satisfied with anything less than an economic policy which will accept some individual or transient loss for an ultimate common gain.

[5] A. Stuart Campbell and Alvin Cassel, "The Foreign Trade of Florida," University of Florida Publication, Economic Series Vol. I, No. 7, Nov. 1935.

# RECOVERY AND THE SOUTHERN WAGE DIFFERENTIAL

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In his admirable study of differentials in income between the South and the remainder of the nation, Professor Heer described clearly the nature of the Southern wage structure.[1] He pointed out that

> the difference in hourly earnings between the South and the rest of the country is apparently at a maximum in the case of common labor and shows a tendency to become progressively less with each advance in the grade of skill. In the case of one or two highly skilled occupations it disappears entirely. This tendency is not particularly pronounced as regards industries in which differences in grades of skill are slight and in which advancement from one occupation to another is comparatively easy. It is strikingly evident, however, in industries in which there are broad differences in skill as between various occupational groups and in which passage from one group to another is difficult.[2]

An inspection of the data in Professor Heer's study shows that, during the late 1920's, workers in relatively unskilled occupations in the South earned from 50 per cent to 65 per cent as much per hour as workers in similar occupations elsewhere.

Since the publication of this study the country has gone through a depression of extraordinary severity. Moreover, the partial collapse of private economic activity resulted in governmental intervention on an unprecedented scale to aid its revival. Beginning roughly in the first half of 1933, and continuing to the present time, a substantial measure of recovery has been experienced. It is the purpose of this paper to examine, on the basis of such data as are available, regional wage differentials during this interesting period.

[1] Clarence Heer, *Income and Wages in the South*. [2] *Ibid.*, p. 35.

## I

Among the measures calculated to stimulate economic activity, the National Recovery Act obviously affected wages directly. The act provided that codes of fair competition contain minimum wage and maximum hour provisions. During the life of the act, most of the industry of the nation operated under some type of minimum wage agreement.[3] Section 7 (a) of the act, furthermore, lent impetus to trade-union organization and to collective bargaining over wages and other conditions of employment. Although the invalidation of the act by the Supreme Court (May 27, 1935) destroyed the national minimum wage structure, a national policy favorable to collective employer-employee relations was continued by the passage of the National Labor Relations Act in July, 1935. Even after the Schechter decision, moreover, a comprehensive work-relief program provided protection, particularly to the unskilled, against inordinately severe pressure on wage rates. The recovery of business was, of course, a powerful factor in the determination of the wage structure.

In the formulation of the minimum wage provisions of the codes, regional differentials were numerous.[4] In fact, 298 of the 578 approved codes contained geographical differentials for one or more classes of workers. Distinctions were made most frequently between the South (variously interpreted) and the remainder of the country. Sometimes Southern, Northern, Middle Western, and Pacific Coast areas were distinguished. In the crushed stone, sand and gravel, and slag code workers in the states of Alabama Florida, Georgia, Mississippi, and South Carolina were given one minimum rate; workers in other Southern states a second rate;

[3] After August 1, 1933, the bulk of codifiable industry operated under the President's Re-employment Agreement until the transfer to industry codes could be arranged. By January 1, 1935, approximately 89 per cent of the possible code coverage (of 27,000,000 workers) had been achieved.

[4] Other types of differentials were based on population and sex. A few of the codes established minimum rates for one or more classes of skilled labor, and general provisions for the adjustment of the wages of those workers earning above the minimum were found in most of the codes. Special minima for office employees were frequent. Exceptions from the minimum wage were often allowed for learners, apprentices, office boys and girls, old and handicapped workers, watchmen, and other special groups. See *Monthly Labor Review*, April, 1935, pp. 886–887; Leon C. Marshall, *Hours and Wages Provisions in NRA Codes*, pp. 18–29.

and workers in the North a third rate. In the steel code 21 districts were marked out; the workers in the Birmingham district obtained a slightly higher rate than workers in other parts of the South; the two Southern rates, in turn, were substantially lower than those prevailing in the other steel districts.

The practice of granting regional differentials might have resulted simply in the freezing of the historical divergences in wage rates between the South and other parts of the country, although at higher absolute levels than had prevailed during the depression. In some industries this tended to occur. In other industries, however, including some of the more important in the South, the differential at the minimum wage level was lowered appreciably. In Table I minimum code wage rates per hour for the South and the remainder of the country are shown for a selected group of industries. These figures relate exclusively to the minimum rates for general labor; special minima for office workers or other groups of employees have been disregarded.

TABLE I

CODE MINIMUM WAGE DIFFERENTIALS

| CODE | MINIMUM IN SOUTH (CENTS PER HOUR) | MINIMUM ELSEWHERE (CENTS PER HOUR) | PERCENTAGE SOUTHERN MINIMUM OF MINIMUM ELSEWHERE |
|---|---|---|---|
| Cotton textile | .300 | .325 | 92.3 |
| Hosiery | .300 | .325 | 92.3 |
| Knitted outwear | .325 | .350 | 92.8 |
| Cotton garment | .300 | .325 | 92.3 |
| Furniture | .300 | .340 | 88.2 |
| Chemical manufacturing | .350 | .400 | 87.5 |
| Folding paper box | .350 males<br>.300 females | .400 males<br>.350 females | 87.5 males<br>85.7 females |
| Cast iron pressure pipe | .300 | .350 | 85.7 |
| Shipbuilding and ship repairing | .350 | .450 | 77.7 |
| Concrete pipe manufacturing | .270 | .370 | 72.9 |
| Iron and steel | .250 to .270 | .350 to .400 | 62.5 to 77.1 |
| Fertilizer | .250 | .350 to .400 | 62.5 to 71.0 |

The most striking thing revealed by this table is the smallness of the differential at the minimum wage level in the textile industries. In cotton textiles and hosiery, which together employed approximately 27 per cent of all wage earners engaged in manu-

facturing in the South in 1929, the differential amounted to only 7.7 per cent. In fertilizer manufacturing, on the other hand, the differential ranged from 37.5 per cent to 29 per cent, depending upon the section of the country with which the South is compared. The other code differentials shown here (with one slight exception) fall between these two extremes.

These code differentials, of course, do not necessarily show the differentials that actually existed in the industries covered. For example, particular types of labor may have received the code minimum in the South and something more than the minimum elsewhere. The cotton textile finishing code, for instance, set a 30-cent minimum in the South and a 32½-cent minimum in the North, a differential of 7.7 per cent. In August, 1934, 35.2 per cent of the workers in the South were earning less than 32.5 cents per hour, while only 2.4 per cent of the New England workers received less than 35 cents per hour.[5] There was obviously a marked concentration of workers around the code minimum in the South, and practically no such concentration in New England in this industry. In a much less extreme form, this situation existed also in the woolen and worsted industry,[6] in the silk and rayon industry,[7] and probably in other industries as well.

The actual influence of the codes and other forces upon regional wage structures is discussed in the following section. It is sufficient to note here that the formulation of the minimum wage sections of the codes had the important result of stimulating widespread interest in the problem of regional differentials. The code differentials that were established, moreover, gave some evidence of the estimates that business men presumably held of the wage differences necessary to maintain the present geographic distribution of industry. These differentials also reflected trade-union strength or weakness, and, in a measure, public policy on wage questions. They undoubtedly helped, in conjunction with other forces, to produce a very considerable absolute rise in wage rates.[8]

[5] *Monthly Labor Review*, May, 1936, p. 1345.

[6] *Ibid.*, June, 1935, p. 1454. [7] *Ibid.*, p. 1443.

[8] Except in a few cases, the codes did not contain specific provisions regarding wages above the general minima. Most of the codes, however, did contain provisions calling for the "equitable readjustment" of the wages of workers whose earnings were above the minimum figure. These provisions were often extremely vague, although the object apparently

## II

During the recovery period there is some evidence of a reduction in wage differentials between the South and the remainder of the country, at least in some industries. Data on a number of industries and occupations are shown below. Wherever possible, data for a pre-depression year, one or more depression years, and one or more recovery years are set forth.

In Table II, the percentage which average hourly earnings in the South formed of average hourly earnings elsewhere is shown for the cotton textile, furniture, and lumber industries. In each case,

TABLE II

WAGE DIFFERENTIALS IN THREE INDUSTRIES, 1928–1934

| INDUSTRY | PERCENTAGE WHICH AVERAGE HOURLY EARNINGS IN SOUTH FORMED OF AVERAGE HOURLY EARNINGS ELSEWHERE | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 1928 | 1929 | 1930 | 1931 | 1932 | July, 1933 | August, 1933 | December, 1933 | August, 1934 |
| Cotton textiles[a]..... | 69.6 | | 71.9 | | 79.4 | 72.2 | 86.2 | | 85.0 |
| Furniture[b].......... | | 66.4 | | 63.2 | | 80.5 | | 86.3 | |
| Lumber[c]............ | | | 46.5 | | 43.7 | 40.9 | | 54.7 | |

[a] Comparison between South Atlantic states and New England, covering twenty occupations. See A. F. Hinrichs, "Historical Review of Wage Rates and Wage Differentials in the Cotton Textile Industry," *Monthly Labor Review*, May, 1935, p. 1173.

[b] Comparison between South Atlantic states, on the one hand, and Middle Atlantic and East North Central states on the other. Special tabulation of U. S. Bureau of Labor Statistics, cited in Charles Frederick Roos, *NRA Economic Planning*, p. 159.

[c] Comparison between Southern pine states (Virginia, North and South Carolina, Georgia, Florida, Alabama, Mississippi, Louisiana, Arkansas, Texas) and the Douglas fir states (Oregon and Washington). Roos, *op. cit.*, p. 159.

the differential between the South and other parts of the country was reduced during the N. R. A. period as compared with the pre-depression year cited. In 1929 average hourly earnings in the furniture industry in the South were 33.6 per cent below those in the Middle Atlantic and East North Central states; in December, 1933, the percentage was only 13.7. Between 1928 and August, 1934, the differential in textiles was reduced from 30.4 per cent to 15 per cent. In the Southern lumber industry, as compared

was to maintain, in so far as possible, customary wage differentials among workers of various grades of skill. The trade unions were active in seeing that these provisions were inserted, and in pressing for wage advances for the more skilled workers.

with that of the Pacific Northwest, the differential declined from 53.5 per cent in 1930 to 45.3 per cent in December, 1933. Average hourly earnings in the Southern cotton textile and furniture industries clearly were carried during this period within striking distance of average hourly earnings elsewhere. The differential in lumber would not have been so great if sections other than the Pacific Northwest had been compared with the South. It is true, however, that the bulk of the lumber industry at present is confined to these two regions.

In the tobacco industry also the differential suffered a sharp reduction. In March, 1933, hourly earnings in the cigarette,

TABLE III

WAGE DIFFERENTIALS IN SELECTED OCCUPATIONS, BLAST FURNACES, 1929–1935*

| OCCUPATION | PERCENTAGE WHICH AVERAGE HOURLY EARNINGS IN SOUTH FORMED OF AVERAGE HOURLY EARNINGS ELSEWHERE | | |
|---|---|---|---|
| | 1929 | 1933 | 1935 |
| Blowers | 63.7 | 91.1 | 89.9 |
| Keepers | 59.7 | 77.2 | 84.5 |
| Keepers' helpers | 55.8 | 75.8 | 80.4 |
| Larrymen | 51.2 | 67.4 | 73.1 |
| Stockers | 53.6 | 87.5 | 93.3 |
| Laborers | 55.0 | 56.1 | 71.6 |

* Source: U. S. Bureau of Labor Statistics, Bulletin No. 513, p. 46; *Monthly Labor Review*, April, 1936, p. 1034.

snuff, chewing and smoking tobacco industry in the South averaged 27.9 cents as compared with 38.0 cents in the North.[9] This represented a differential of 26.6 per cent. Two years later, however, the differential had decreased to 12.2 per cent, with average hourly earnings of 41.4 cents and 47.1 cents in the South and North respectively.

Thus far we have compared average hourly earnings between the South and elsewhere for all or many of the occupations of certain industries. In Table III, the percentage that average

[9] *Monthly Labor Review*, May, 1936, p. 1327. The figure for the South is a weighted average of hourly earnings in North Carolina, Virginia, Kentucky, and Tennessee. The Northern states are those of Illinois, Michigan, Missouri, New Jersey, New York, Ohio, Pennsylvania, and West Virginia.

hourly earnings in the South formed of average hourly earnings elsewhere is shown for 6 occupations in blast furnaces at 3 dates. In this department of the steel industry, the differences between average hourly earnings in the South and elsewhere were quite marked in 1929. As a matter of fact, even the blowers, relatively skilled workers, earned in this year only 63.7 per cent as much per hour in the South as similar workers in other parts of the country. The workers in the other 5 occupations were relatively worse off than the blowers.

By 1935, however, the differential in all 6 of these occupations had decreased considerably. In this year the differential ranged

TABLE IV

Wage Differentials for Common Labor, Six Industries, 1935–1936*

| Industry | Percentage that Average Hourly Entrance Rates of Adult Male Workers in South Formed of Average Hourly Entrance Rates Elsewhere | |
|---|---|---|
| | July, 1935 | July, 1936 |
| Cement | 77.5 | 72.8 |
| Foundry and machine shop products | 80.5 | 84.0 |
| Iron and steel | 88.9 | 86.4 |
| Lumber (sawmills) | 55.1 | 48.3 |
| Public utilities | 85.9 | 72.3 |
| Building construction | 73.7 | 70.1 |

* Source: South includes the South Atlantic, East South Central, and West South Central states. *Monthly Labor Review*, March, 1936, p. 704; April, 1937, p. 949.

from 6.7 per cent for the stockers to 28.4 per cent for ordinary laborers.

Table IV shows the percentage that average hourly entrance rates of adult male workers engaged in common labor in 6 industries in the South formed of average hourly entrance rates for workers similarly engaged elsewhere. Unfortunately, data of a strictly comparable nature for years earlier than 1935 do not exist. In July, 1935, the entrance rate differential exceeded 30 per cent only in the lumber industry; in 3 industries the differential was less than 20 per cent. Yet it was precisely among workers at this level of skill that Professor Heer found a differential of 35 per cent or more in the study cited above. It is interesting to note

that between July, 1935, and July, 1936, the differential widened in all except one industry.

The data set forth in this section indicate that, at least in some industries, the wage differential against the South was lowered during the N. R. A. period. The minimum wage provisions of the codes of fair competition influenced this result, but other forces also acted upon the wage structure. The codes helped in particular to increase the hourly earnings of the lower paid workers; in some cases the percentage increases over the depression level, particularly in the South, were spectacularly large. The wages of all workers tended to advance during this period, however, and in a rough way skill differentials were probably maintained.

# A PROPERTY CLASSIFICATION CASE IN KENTUCKY

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The tax on real property for state purposes in Kentucky is at the rate of five cents on each one hundred dollars of assessed valuation. This almost nominal rate was eliminated entirely by an act of the Legislature in 1936;[1] but the measure was successfully attacked in the state's courts and held invalid by the Court of Appeals, the court of last resort in the state.[2] The issue before the court for determination was the interpretation of the classified property tax clause of the state's constitution. This clause had been inserted in the constitution by popular vote in 1915. The specific point around which the pleadings centered was whether the power to classify property for purposes of taxation included the power to exempt any property not specifically exempted by the constitution. The court denied that the power to classify implied the power to exempt. It said in effect that the Legislature could raise the rate to any reasonable height or lower it to any fractional part of one cent per hundred dollars of assessed valuation but could not abolish it completely.

The constitutional provision before its amendment was as follows:

> The general assembly shall provide by law an annual tax, which, with other resources, shall be sufficient to defray the estimated expenses of the Commonwealth for each fiscal year. Taxes shall be levied and collected for public purposes only. They shall be uniform upon all property subject to taxation within the territorial limits of the authority levying the tax; and all taxes shall be levied and collected by general laws.[3]

The amendment changed it to the following:

> The general assembly shall provide by law an annual tax, which with other resources, shall be sufficient to defray the estimated expenses of the

[1] *Acts of the General Assembly*, Regular Session, 1936, ch. 98.

[2] *Martin et al. v. High Splint Coal Co. et. al. 268 Ky 11* (March 26, 1937). [3] Section 171.

Commonwealth for each fiscal year. Taxes shall be levied and collected for public purposes only and shall be uniform upon all property of the same class subject to taxation within the territorial limits of the authority levying the tax; and all taxes shall be levied and collected by general law. In addition to this change a paragraph was added: "The general assembly shall have power to divide property into classes and to determine what class or classes of property shall be subject to local taxation." It was this added paragraph which was the center of the controversy.

The attack on the act was based principally on the charge that it violated section 170 of the constitution. This section, after enumerating property to which tax exemption was granted, forbade further exemption in the following language, ". . . . and all laws exempting or commuting property from taxation other than the property above mentioned shall be void." The usual quotations from treatises and court decisions relative to the narrow and strict interpretation of exemption grants were then introduced. It will be sufficient to note two of these found in the decision of the court. Both are from Cooley. "Exemptions are never presumed, the burden is on a claimant to establish clearly his right to exemption, and an alleged grant of exemption will be strictly construed and cannot be made out by inference or implication but must be beyond reasonable doubt."[4] This quotation is relevant to the question, but the next is obviously a non sequitur since it deals with a tax system in which there is an equality and uniformity clause. It is a truism of taxation theory that classification of property precludes the possibility of uniformity and vice versa. The court said in part:

Mr. Cooley in his great work on 'Taxation,' as well as all the other text writers above referred to, clearly point out the broad distinction between a mere power to *classify* for taxation and a power to totally exempt property therefrom. In section 273, page 580, volume 1, of his work referred to, he says: 'In most states, the provision as to equality and uniformity is held to preclude the legislature from either expressly exempting part of the property from taxation, or accomplishing the same result by failure to tax such property, except in so far as exemptions are especially provided for by the constitution, and in such a case, the power to exempt cannot be delegated to a municipality.'

[4] T. M. Cooley, *The Law of Taxation*, Vol. II, 4th ed., p. 1404.

Counsel for the state, in defending the constitutionality of the act, relied largely on the contention that the power to classify property for purposes of taxation with the application of different rates to these different classes of property included the power to apply a zero rate to any given class.

The position was taken that an amendment to a constitution was similar in its effects to a codicil to a will which modifies or makes void all prior provisions conflicting or interfering with the operation of the last added expression of the testator's desires or wishes. Neither attorneys for the opposition nor the court denied this contention; but the court held it to be inapplicable on the ground that section 170 of the constitution is the one that would have been amended rather than section 171, if the intention of the amendment had been to empower the Legislature to exempt any class of property from state taxation. In the language of public finance the former deals with universality, the latter with uniformity.

Professor Leland in his study of classified property taxes[5] does not discuss this issue in exactly the way in which it is presented here. However, he does devote a paragraph to classification secured through varying exemptions.

> However, when one piece of property is entirely exempt (without restriction and for all time) relative to another which is not, classification is not the result, but if certain types of property are granted partial immunity, which is denied to other classes of property, there follows a differentiation which is classification. The exemptions which produce these differentials may vary in time, in amount or in phases of property exempted, as where a portion rather than the whole of a class is exempt, ***or they may free certain property from given taxes to which other holdings are subject.***[6]

Later on he adds: "When classification is brought about by the exemption of certain classes of property from given taxes, it is usually because there has been a separation of the sources of revenue of the various governments. . . . The two plans are quite distinct, although they may be deliberately combined in the same system, as in Kentucky, Virginia, and Pennsylvania."[7]

Professor Jensen also mentions the fact that Kentucky delib-

[5] S. E. Leland, *The Classified Property Tax in the United States.*

[6] *Ibid.*, p. 61. My emphasis. [7] *Ibid.*, p. 63.

erately combined classification and segregation.[8] Elsewhere he says: "A great many phenomena that appear in the form of exemptions are in fact something else. They may be mere adjustments of the tax base to avoid multiple taxation, or they may be exemptions from the simple form of property taxation in lieu of special taxes more suitable for the particular property and enterprises."[9]

In discussing the relationship between classification and exemption Leland says: "A state should have the right to exempt property, incomes or persons in order to reach by other methods the ability which they possess. Only by being able to tax differentially and to exempt where necessity and sound fiscal practice require can a state maintain a just, as well as a flexible tax system. The right of exempting property should accompany classification."[10]

It is practically impossible to find an exactly analogous case in any other state because of the peculiar wording of the constitutional provision. It seems clear that the amendment to the constitution, following as it did years of agitation for liberalization of the constitution and elimination of the uniformity clause, intended to give the Legislature the power not only to classify property but also to segregate such sources of revenue as it chose for state taxation, for local taxation, or for both state and local taxation. That such was the intent is evidenced by the fact that a tolerably comprehensive system of classification, embodying considerable separation, was promptly enacted by the Legislature and has remained, subject to some modification, in force ever since.[11] Bank stock and corporate franchises, for example, are taxed by both the state and local governments, but building and loan stock, bank deposits, and intangibles generally are taxable only by the state. It would appear that it is merely an historical accident that no single class of property was made entirely exempt from state taxes, whereas several classes were made exempt from local levies. If the system had been begun with one or more sources of revenue set aside for local purposes only, as well as

[8] Jens P. Jensen, *Property Taxation in the United States*, p. 173.

[9] *Ibid.*, p. 133. [10] Leland, *op. cit.*, p. 404.

[11] For details of Kentucky's tax system see *Tax Systems of the World*, Commerce Clearing House, or *Results, Kentucky's New Revenue Program*, Department of Revenue, Special Report No. 1 (June, 1937). The latter embodies new legislation and is more complete.

some for state purposes only (not to mention those for both) there is little doubt but that this extreme interpretation of the exemption clause would never have been applied.

Virginia has a somewhat similar system of classification and separation of sources; but the enabling constitutional clause was written at the time the constitution was adopted and, accordingly, is full and complete since brevity was not essential. It is as follows:

All property, except as hereinafter provided, shall be taxed; all taxes, whether State, local or municipal, shall be uniform upon the same class of subjects within the territorial limits of the authority levying the tax, and shall be levied and collected under general law. The general assembly may define and classify taxation subjects, and, except as to classes of property herein expressly segregated for either State or local taxation, the general assembly may segregate the several classes of property so as to specify and determine upon what subjects State taxes, and upon what subjects local taxes may be levied.[12]

The power to classify in Kentucky, however, was obtained through an amendment, and it is well known that amendments are usually proposed in the shortest and most succinct language possible so as not to discourage the voter from consideration of them.

It should be borne in mind, too, when considering the constitutional clause forbidding exemption that there is a vast difference between exemption for state or local purposes on one hand and total exemptions on the other. In practically every sense in which the word is ordinarily used the term property tax exemption means complete freedom from all ordinary and regular levies of taxes. This is so universally true that it is necessary for textbooks to point out, when discussing the subject, that special assessments for local improvements are generally held by the courts to be exceptions to this rule.[13]

The power to tax is a sovereign power, limited only by specific

[12] Article XIII, paragraph 168.

[13] The literature on tax exemption is extensive. For discussions of tax exemption see the article by Karl Shoup under that title in the *Social Science Encyclopedia;* James W. Martin, "The Social Aspects of Tax Exemption," *The Annals of the American Academy of Political and Social Science*, January, 1936; C. W. Stimpson, *The Tax Magazine*, December, 1932, January, 1933, May, 1933; L. R. Bloomenthal, "Tax Exemptions," *Tax Magazine*, May, July, and August, 1937.

bounds set by constitutional provisions. It follows, of course, that the power to tax is not a compulsory duty to tax. The constitutional provision which says that "The General Assembly shall provide by law an annual tax, which with other resources, shall be sufficient to defray the estimated expenses of the Commonwealth. . . . ." certainly should not be held to compel the state to tax if it did not need the money. Taxation is universally held to be a necessary evil. To hold that a state must tax would be absurd; yet the strict interpretation of the constitutional clause concerning exemptions, followed in this case, would prevent the state from exempting all property should some fortuitous circumstance bring sufficient funds into the coffers of the state to enable it to operate one or more years without additional revenue from taxation.

The court quoted favorably from Cooley, as noted above, to the effect that there was a great difference between "a mere power to *classify* for taxation and a power to totally exempt" property from taxation. In spite of the fact that much weight was given to this opinion it is really irrelevant as total exemption is most certainly not what the Legislature was giving to real property.

# THE NETHERLANDS COLONIAL BALANCE SHEET

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Until recently it was rather generally assumed that colonies are profitable to the mother country, although few efforts approaching a scientific analysis of the profits of imperialism have been made. The insistent demand for colonies in recent years by the 3 leading so-called "have not" states has attracted attention to the question. Interest in the question is sharpened by the impending voluntary liquidation by the United States of her richest colonial possession. Philippine freedom may be only a fulfillment of a promise made long ago, but the circumstances attending the action clearly indicate that several important economic groups in this country were eagerly pressing for the action. This paper attempts an economic approach to the Dutch East Indies colonial problem.

## I

The Netherlands is a small country with a rich and extensive colonial empire. In the home land there are 8,000,000 Netherlanders occupying an area of about 13,000 square miles; the colonies embrace nearly 800,000 square miles with a population of about 65,000,000.[1] Nearly all of this vast colonial empire is represented by Netherlands India, or the Dutch East Indies as the dependency is popularly known in English speaking countries. In the West the Netherlands has some territory, most of which is of little economic value. Six small islands in the Carribbean were, until the last decade, a drain on the treasury of the Netherlands. Two of these islands, because of their strategic position off the coast of Venezuela, have become important oil refining centers, and the

[1] The statistical and other data throughout the article are based chiefly on the following sources: the annual reports of the governments of Netherlands India, Surinam and Curacao; *Proceedings of the States General;* various articles in the *Encyclopaedia for Netherlands India.* For a general account of the economic and social structure of the East Indies see A. Vandenbosch, *The Dutch East Indies; Its Government, Problems and Politics.*

prosperity which the oil industry has brought has enabled the government of these 6 islands to balance its budget and even to build up surpluses. The government of Dutch Guiana, on the other hand, has run deficits for over a decade, and there are no signs to indicate that it will soon cease to be a burden on the Netherlands' treasury.

Whatever profits the Dutch have enjoyed from their dependencies have come from the East Indies. During long periods of Dutch history golden streams of profit did flow from the East Indies to the Netherlands. The East Indian Company poured out in dividends alone 36 times its original capital of 6,500,000 florins, or an average of 18½ per cent a year. In addition to the dividends there were the remittances to Holland by the East Indian officials and employees and the salaries and wages of the company's employees in Holland. The total gains to the Dutch people through the East Indian Company have been estimated at 2,000,000,000 florins.

About 1780 the golden stream dried up. It was half a century before the stream again began to flow, but for a period of nearly 50 years after 1831 it flowed copiously. During these years the East Indies were being systematically exploited by the iniquitous forced culture system. In the same period the East Indian government sent over 800,000,000 florins to enrich the treasury of the Netherlands government. With the victory of liberalism in Dutch politics the state had to yield the exploitation to individuals. After 1877 state exploitation gave way to private exploitation. An increasing number of Netherlanders migrated to the East Indies, and Dutch investments there expanded rapidly. In 1929 the amount of foreign capital invested in the East Indies totalled approximately 4,000,000,000 florins. About two-thirds of this was Dutch capital. Profits on this capital in the years before 1929 reached a total of over 500,000,000 florins a year. After deducting the amount reinvested in the East Indies there remained about 250,000,000 florins for remittance to the Netherlands annually. Of this sum the Dutch government took in direct taxes 60,000,000 florins yearly—an amount equal to one-fourth of the total received in direct taxes. A total of 25,000,000 florins is still being paid in Holland annually in the form of pensions to retired East Indian officials, civil servants, and soldiers.

The bonds representing the East Indian public debt, which now amounts to 1,500,000,000 florins, are practically all held in Holland.

Such in broad outline are the sums which may point to the profits accruing to the Dutch government and people as a result of their political control over the East Indies. As they stand these sums have little meaning. They must be analyzed.

## II

A first and no mean item is the maintenance of the Civil Service in so far as it is recruited in the Netherlands and is a charge on the East Indian budget. During the three decades previous to the depression the Dutch had built up an intensive administration. This called for a large corps of highly trained civil servants. Candidates for posts in the East Indian Civil Service were selected upon graduation from high school. During the 5 years in training at Leiden University (later the University of Utrecht also offered courses for the East Indian service) the candidates receive 1000 florins annually, and at the end of the course are sent out to the East Indies at the expense of the government. In 1928 when the imported personnel was about at its peak, there were approximately 8,000 Netherlanders in the East Indian Civil Service. Nearly all of the higher-paid positions under the East Indian government were held by Netherlanders. It is obvious that this represented a very important outlet for the college graduates of the Netherlands. Translated in terms of American population figures, a similar outlet would provide profitable positions for 125,000 American college graduates. It should be remembered that the term of service is relatively short, averaging not over 25 years, and that the retirement period is relatively long. While liberal pensions are provided they nevertheless are less than half of the maximum salary attained. It should also be remembered that the salaries received in active service are spent in the East Indies and not in the Netherlands.

It is evident that this constituted a costly administrative system for an economically weak country. It could be maintained only so long as the Western enterprises in the East Indies flourished. With their collapse in 1930 drastic measures had to be taken to

reduce costs. Pressure from educated Indonesians seeking employment has also worked toward the same end. The number of Netherlanders in the East Indian service will be gradually lowered. Already the number is probably a thousand below the peak of 1930.

In addition to the Netherlanders in the Civil Service there are a number in the military and naval branches of the East Indian government. In 1931 there were 623 officers and 5,000 enlisted men in the East Indian army who had been recruited in the Netherlands. The corresponding numbers for 1933 were 541 and 4,000 respectively. In the navy in 1933 there were 334 officers, nearly all of whom must have come from the Netherlands. There were also 559 petty officers, a large number of whom came from the Netherlands, and 1,189 sailors, of whom a large number were undoubtedly Eurasians from the East Indies.[2]

From the point of view of our analysis pensions for Europeans constitute an important item, for these pensions are nearly all consumed in the Netherlands. In 1928 there were 2,075 retired civil servants who received 8,102,000 florins in pensions in the Netherlands. During the same year 12,713 retired officers and enlisted men received 11,337,000 florins in pensions in Holland. At the end of 1933, 13,269,000 florins were paid to 3,118 retired civil servants in the Netherlands and 12,298,000 florins to 11,652 retired officers and enlisted men of the army and navy. The reason for the great increase in the number of retired civil servants is to be found in the fact that during the depression a number of persons were retired early in order to cut governmental costs. It was cheaper to retire civil servants at less than half pay than to continue them at full pay. In addition to those actually pensioned there were 308 Europeans placed upon the non-active list. They received partial salary to the amount of 1,464,492 florins. Many of these were undoubtedly in the Netherlands waiting for call to active duty.

The figures given above are for the central government only. Local governments also import personnel from the Netherlands, but the number is not great.

Another item not to be overlooked is the amount received by

[2] The government's reports do not indicate the origin of the navy personnel here given beyond listing them as Europeans.

government employees on leaves of absence to the Netherlands. This sum may be estimated at about 3,000,000 florins a year, which is less than half of what it was before the depression. A furlough is granted for every 6 years of service and it may be extended by a month for each additional year of service to a maximum of one year.

Still another item is the maintenance of the Commissariat for Indian Affairs at the Hague. While the Netherlands government defrays nearly all of the cost of the colonial office the East Indian

TABLE I

BALANCE OF PAYMENTS OF THE NETHERLANDS INDIES

(In millions of florins)

| | 1933[a] | 1930 | 1925 |
|---|---|---|---|
| Payments (Imports): | | | |
| Imports of Merchandise | 318 | 890 | 841 |
| Imports of Gold | | 3 | 22 |
| Invisible Items[b] | 314 | 531 | 1,052 |
| Total | 632 | 1,424 | 1,915 |
| Receipts (Exports): | | | |
| Exports of Merchandise | 475 | 1,162 | 1,805 |
| Exports of Gold | 35 | 5 | 8 |
| Invisible Items[b] | 122 | 257 | 102 |
| Total | 632 | 1,424 | 1,915 |

[a] Preliminary figures for 1933.

[b] Consisting chiefly of interest, dividends, remittances, new capital investments and short-term credits.

government pays for the cost of the commissariat. In 1931 the commissariat spent nearly 1,000,000 florins. By 1935 the expenditure had been reduced to 650,000 florins.

The purchase in the Netherlands of supplies for the East Indian government is undoubtedly an item of some importance, but how great the item is it is impossible to ascertain from available government documents.

When the profits from private business are considered it is even more difficult to arrive at reliable estimates. The balance of payments drawn up by the East Indian Central Bureau of Statistics

indicates profits on foreign capital of over 275,000,000 florins in 1925 and 190,000,000 florins in 1930. By 1933 these profits had dwindled to 26,000,000 florins.

## III

Until the depression the Dutch adhered rather rigidly to the open-door policy, but this did not mean that some Dutch industries did not enjoy certain rather definite advantages. For example, the Dutch boat lines between points in the islands and the Dutch boat lines between the Netherlands and the East Indies have contracts with the East Indian government for the carriage of government passengers and supplies. In 1929 these boat lines carried

TABLE II

Value of Imports and Exports of Goods

(In million guilders)

| YEAR | IMPORTS | EXPORTS |
|---|---|---|
| 1925 | 818 | 1785 |
| 1929 | 1072 | 1446 |
| 1930 | 855 | 1159 |
| 1931 | 572 | 749 |
| 1932 | 373 | 543 |
| 1933 | 321 | 470 |
| 1934 | 298 | 490 |
| 1935 | 275 | 465 |

nearly 6,000 passengers between the Netherlands and the East Indies at the expense of the East Indian government. The amount paid for the carriage of these passengers was about 9,000,000 florins. In 1933, 4,555 passengers were carried at a cost of 6,000,000 florins. As a result of the trade and shipping war with the Japanese the East Indian central legislative body empowered the government to require that percentages of East Indian imports be shipped in Dutch bottoms. This measure helped greatly to win the shipping war with Japan, for Japanese exports to the East Indies far exceed Japanese imports from the East Indies.

How much of all this was pure gain to the Dutch it is impossible to determine. It may be safely assumed that not all of the Dutch in the employ of the East Indian government would have received

as profitable employment elsewhere. On the other hand, except in times of depression, most of them would have found some kind of employment either in the Netherlands or elsewhere. The same must be concluded with respect to Dutch capital. The Dutch have large investments in foreign countries. It is only a question of the amount of return on the investment. There is no doubt of the fact that Dutch enterprises in the East Indies have during good years enjoyed splendid returns. On the other hand so did non-Dutch capital invested there. However, it would be absurd to deny that nationals have certain indefinite advantages in a dependency over aliens doing business there.

The appalling economic retrogression of the East Indies during the depression has caused the Dutch government to change fundamentally East Indian commercial policy. The story of the economic decline in the East Indies is graphically shown by Table II.

It will be noted that with 1934 there appeared a slight improvement in the trade balance. Imports continued to decline and exports expanded, thus producing a greater export surplus. The great decline in the value of exports was primarily due to a fall in prices, since the volume of exports remained fairly constant and had returned to the 1929 level by the end of 1935. With the devaluation of the florin in September, 1936, a decided improvement was at once noticeable. The story of the catastrophic decline and mild recovery can be briefly told with a simple statistical comparison. If an index number of 100 be given to the value of East Indian export products in 1925, the index would have been 85 in 1928, 47 in 1931, and 27 in the first half of 1936. From that low point it rose to 31 in July of 1936, and to 43½ in terms of the devaluated florins at the end of the year.

Government receipts and expenditures tell an equally sad story. In spite of drastic increases in taxes government revenue declined from 524,000,000 florins in 1929 to 250,000,000 florins in 1933. The public debt increased by 500,000,000 florins and now stands at 1,500,000,000 florins. After relentless pruning the budget for 1937 has been balanced at about 250,000,000 florins.

## IV

The economic and fiscal difficulties of Netherlands India are closely associated with the great expansion of Western industries

during the two decades preceding the depression. Western enterprises, with their greater productivity, did something to raise the native income but they did more to furnish the tax resources for a greatly intensified and expanded governmental administration. The public revenues of the East Indies were to a marked degree dependent upon the Western enterprises operating in the countries. The native contribution has been estimated to be as low as 30 per cent but was probably closer to 40 per cent. The Western enterprises are engaged almost exclusively in producing the export commodities of which the East Indies produces so large a share of the world's total production. The East Indies produces 93 per cent of the world's quinine, 70 per cent of its pepper, 32 per cent of its rubber, 30 per cent of its copra, 20 per cent of its sisal, 17 per cent of its tin, 11 per cent of its sugar, 8 per cent of its coffee and 8 per cent of its palm oil. In the case of only a few commodities, such as coffee, rubber and tea, is the native production of any significance. With the collapse of the prices of these export commodities in 1930, East Indian economic life was sorely affected and the public revenues declined precipitately.

How disastrously the Western export industries were affected is best illustrated by the sugar industry. This industry was of the greatest importance to the over-populated island of Java, with its 42,000,000 people living in an area of 50,000 square miles, an area almost exactly equal to that of the state of New York. In the years immediately preceding the depression the total annual expenditures of the Java sugar industry averaged about 250,000,000 florins; the expenditures now amount to about 65,000,000 florins. In 1929 the industry paid 19,000,000 florins to 60,000 native employees; now 25,000 native employees receive 5,000,000 florins. In 1929 a sum of 130,000,000 florins was paid to Javanese landowners in land rent; this sum has now been reduced to about 5,000,000 florins. Formerly the industry gave employment to 4,200 European employees, to whom a sum of 19,000,000 florins was paid in salaries. At the present time 1,700 men receive 6,000,000 florins.[3]

The East Indian government faced very great financial problems, many of which still remain unsolved. The East Indian administra-

[3] See A. Vandenbosch, "Troubles of a Colonial Power", *Asia*, September, 1937.

tive organization and service was one of the best in the world, but it was costly to maintain because of the high percentage of its personnel which was imported from the Netherlands. With the drastic retrenchment of expenditures the Dutch personnel was greatly reduced. In the early period of the depression boats left the East Indies loaded with passengers and returned empty. While the administrative service has been reduced to a level which the native economy can bear, the fiscal problem remains acute. The chief difficulty arises from the heavy fixed charges. Pensions and service on the public debt take about half of the government's annual receipts of 250,000,000 florins. This leaves very little with which to carry on the ordinary functions of government.

Unfortunately, the Dutch producers for the East Indian market were doubly hit during the depression and were clamoring for aid from the Dutch government. They were suffering not only from the general results of the depression but even more from the Japanese invasion of the East Indian market. In 1928 the Netherlands supplied 20 per cent of the total East Indian imports; by 1933 this percentage had declined to 12½ per cent. To stem this invasion the Dutch deserted their time-honored open-door commercial policy and resorted to the imposition of quotas, chiefly upon textiles. What the actual value of these quotas is to the Dutch producers it would be very difficult to determine. A Dutch parliamentary paper estimated the Dutch quota for bleached cotton goods alone to be worth 7,000,000 florins.

## V

Now what is there to offset these fairly numerous but indefinite and often intangible advantages which have accrued and still accrue to the Dutch from their Eastern dependency?

1. In 1905 the Netherlands government wrote off an advance of 40,000,000 florins which the Netherlands treasury had made to the East Indian government.

2. In 1936 the Netherlands government announced a gift of 25,000,000 florins to the East Indian government, the total sum to be spent upon welfare measures over the course of 3 years.

3. During the depression years nearly all of the East Indian public debt was converted into new issues guaranteed by the

Netherlands government. This resulted in an annual interest saving of 30,000,000 florins.

4. The Netherlands government formerly contributed 62 per cent of the East Indian naval defense costs. It has now taken over the entire burden which amounts to about 30,000,000 florins a year. This sum seems certain to increase for a number of years, for the tense situation in the Far East has led the Dutch to adopt a program of naval armaments expansion.

5. The Dutch government bears the expense of the foreign relations, including the consular service, for the entire empire. The East Indian government is saved this expense though it does not add greatly to the costs of the Dutch government.

6. Commercial agreements with a number of countries and clearance agreements, notably with Germany, which involved some sacrifice of Netherlands' interests have been made in order to advance the interests of the East Indies. Undoubtedly the Netherlands is able to obtain concessions which the East Indies by itself would not be able to obtain.

7. Subsidies have been granted to a few East Indian industries. A subsidy amounting to about 1,250,000 florins a year is made to the Javanese batik industry. This industry had suffered as a result of the increase in prices caused by the imposition of quotas on the textiles it used, and this subsidy was granted as an offset. A subsidy of 800,000 florins annually has recently been announced by the Javanese sugar industry. A proposed subsidy of 4,000,000 a year to the East Indian coffee industry was not granted because the government was unable to work out the details satisfactorily.

It is obviously impossible to balance the items on both sides of the ledger. Some of the items cannot be weighed at all. Others are of a mixed nature. The third item is a good example of this. Thirty million florins in interest charges are saved by Netherlands' guarantee of the East Indian loans, it is true. On the other hand, had the East Indies been an independent country, it might have reached some agreement with its bondholders for a scaling down of the debt. Moreover, only if the East Indian government finally defaults will this measure cost the Netherlands government anything.

It is also clear that the Netherlands is in a better position to

exploit the East Indies than the East Indies is to profit at the expense of the Netherlands. This is in marked contrast with the relative positions of the United States and the Philippines. The Netherlands has a relatively small market, especially for the articles which the Indies has to export, while the East Indies is a very large market for most articles the Netherlands can produce. In the past there has been some discussion about a custom's union between the two countries, but there is little likelihood that this will ever come to fruition. The economic interests of the two countries are too divergent. The interests in the East Indies of economic groups in the Netherlands are not all the same either. Dutch producers in the homeland look with an envious eye upon the East Indies as a market for their goods that their own government can safeguard for them against hostile competition. Another group looks to the East Indies not as a market for their goods but as an outlet for their capital in the huge agricultural industries. The Dutch have made their largest profits in the East Indies as large-scale agrarian enterpreneurs. As such, they can hardly view with approval any measures which reduce their ability to sell freely in the world market. In this respect their interests coincide with that of the East Indian masses, which is to buy in the cheapest markets and sell in the highest.

It is worthy of notice that the measures taken by the Netherlands during the depression have aroused the hostility of people in the East Indies, both Dutch and Indonesians. There has been a great deal of bickering about the relative sacrifices of each for the good of the other. It has stimulated the movement for autonomy among all population groups in the East Indies. There were insistent demands that the Netherlands take over part of the East Indian debt; there was no end of complaint that nearly all of the measures undertaken were primarily in the interest of the Netherlands.[4] Imperial economic unity has an alluring appeal to many people in all countries; in operation it loses a great deal of its attraction. The Netherlands statesmen have discovered that whatever is gained by one part of the empire by a specific measure is almost invariably paid for by another. It is not long before the whole relationship becomes surcharged with a profit and loss accounting, with few or no elements satisfied.

[4] See the author's article referred to above.

# THE POSTAL SAVINGS SYSTEM AND THE BANKS

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The United States Postal Savings System is today meeting with considerable opposition from bankers. Bankers' organizations, both local and national, are advocating its modification or elimination. Several bills directed to that objective were introduced in Congress during the last session, and, when the new Congress convenes, further attempts to procure such legislation will doubtless be made. At the same time, fewer local banks are accepting postal savings funds, the number having declined from 5,400 to 3,200 since 1934. To understand the attitude of the bankers and to appraise properly their contentions necessitates an historical review of the relationship between the system and the bankers as expressed through their public utterances and their actions.

## I

The entrance of the government into new fields of activity is usually met by criticism, especially if the government competes with an already established business. The effort of the government to collect and safeguard small savings was no exception. In 1910, when agitation for the establishment of a Postal Savings System was so great as to forecast its introduction, banks in every section of the country went on record, in one form or another, against the entry of the government, as they felt, into the banking business. The American Bankers' Association appointed a special committee whose primary work was to agitate and lobby in Congress against the postal savings bill. One state bankers' association after another passed resolutions vigorously condemning the idea as dangerous paternalism, as a step toward greater centralization of banking, as another form of guarantee of bank

deposits, and as unnecessary, unwise, and unconstitutional.[1] Bank superintendents joined in the outcry, fearing the damage that they expected would be inflicted on small country banks.

This early opposition, prior to the passage of the bill, was the usual reaction of any group fearing the introduction of a powerful competitor. When the Postal Savings System came into existence, however, and the banks were able to see its actual operation, they found it not a dire catastrophe but a source of aid and profit. Occasional reports of speeches began to appear in the local press or in the minutes of bankers' meetings pointing this out and even praising the Post Office as drawing out hoarded money. The Committee on Postal Savings Bank Legislation of the American Bankers' Association reported in 1915 that in its opinion "Postal Savings should not be objected to as it appears that the Post Office does not compete with the banks, but rather encourages thrift in the community which is a help to all institutions accepting deposits." A word of warning, however, was added, suggesting that a watchful eye should still be kept on postal savings.[2]

From 1911 until the middle of 1935 the banks accepted the Postal Savings System with little apparent opposition. Undoubtedly much was due to the provisions of the postal savings law, which stipulates that all postal savings deposits (except a reserve fund of 5 per cent with the Treasury and a working fund with the local postmasters) must be offered to local banks as a bank deposit to the credit of the Post Office. The banks receiving the funds are required to post collateral in the form of government and certain types of municipal securities and to pay interest at a rate, established by Post Office regulation, of 2½ per cent per annum.[3] If the banks refuse the postal savings funds, they may then be invested in securities by the system. Only in case of an emergency, so declared by the President, may postal savings money be at once directly invested. Ordinarily, therefore, the security portfolio of the system holds only those funds that the local banks do not accept.

[1] *Cf. Commercial and Financial Chronicle*, March 26, 1907, p. 723; December 26, 1908, p. 1636; May 8, 1909, p. 1174; June 26, 1909, p. 1591; July 3, 1909, p. 15; October 16, 1909, p. 970; May 14, 1910, p. 1275; June 4, 1910, p. 1462.

[2] Report to the savings bank section at the National Convention, September 7, 1915.

[3] The law stipulates that the interest paid by the banks shall not be less than 2¼ per cent, but that the Post Office may establish a higher rate.

These redeposited postal savings funds proved for a long while to be quite profitable to the banks. The $2\frac{1}{2}$ per cent interest that the banks paid the Post Office for these deposits was, until 1934, lower than the prevailing rate of interest to other customers of the banks. No data are available on the prevailing nominal rates of interest paid customers on time deposits since 1911, but an average rate has been computed for national banks between 1921 and 1926 and for all member banks of the Federal Reserve System since 1927. A comparison of these rates with those paid the Post

TABLE I

AVERAGE RATES OF INTEREST PAID BY BANKS ON POSTAL SAVINGS AND OTHER TIME DEPOSITS*

| YEAR[a] | AVERAGE RATE PAID ON SAVINGS DEPOSITS BY NATIONAL BANKS | EXCESS OVER NOMINAL RATE PAID ON POSTAL SAVINGS REDEPOSITS | YEAR[a] | AVERAGE RATE PAID ON TIME DEPOSITS BY MEMBER BANKS[b] | EXCESS OVER NOMINAL RATE PAID ON POSTAL SAVINGS REDEPOSITS |
|---|---|---|---|---|---|
| 1921 | 3.81% | 1.31% | 1927 | 3.34% | .84% |
| 1922 | 3.71 | 1.21 | 1928 | 3.33 | .83 |
| 1923 | 3.73 | 1.23 | 1929 | 3.34 | .64 |
| 1924 | 3.68 | 1.18 | 1930 | 3.31 | .81 |
| 1925 | 3.64 | 1.14 | 1931 | 2.99 | .49 |
| 1926 | 3.63 | 1.13 | 1932 | 2.80 | .30 |
| | | | 1933 | 2.55 | .05 |

* Source: Average rates paid by national banks from the *Annual Reports of the Comptroller of the Currency*. Average rates paid by member banks from the *Annual Report of the Board of Governors of the Federal Reserve System.*

[a] For national banks, year ending June 30; for member banks of the Federal Reserve System, year ending December 31.

[b] Member banks of the Federal Reserve System.

Office (Table I) shows that in every year between 1921 and 1933 the postal savings funds have cost the banks less than other deposits by an amount varying from 1.31 per cent to .05 per cent.[4] This differential was undoubtedly larger in some parts of the country and smaller in others, but no regional statistics exist upon which comparisons can be made.

The banks also found the expenses in connection with the hand-

[4] Actually the disparity is even greater than indicated by this table. It will be noted that the rate quoted for the postal savings deposits is a nominal rate while that for all time deposits is a rate computed from a comparison of the volume of deposits and the volume of interest actually paid. The loss of interest due to premature withdrawal, insufficient balances, and the like always tends to make the average rate lower than the nominal rate.

ling of postal savings were lower than for other time deposits. The Postmaster General quoted the representative of a large bank as saying that it would have cost the management hundreds of dollars to secure funds equivalent to the postal savings account in his bank.[5] Again, in the handling of the funds, the individual post office absorbs much of the work, being responsible for the keeping of the records of the numerous small deposits and withdrawals, whereas it redeposits in a lump sum as one deposit. Some indication of the extent to which the local post office serves as a "middleman" for the collection of savings may be seen from the fact that the average balance to the credit of each postmaster between 1912 and 1932 was $29,000 per bank, increasing from a low of $3,000 per bank in the earliest year to $134,000 in the latter year. The average balance due each depositor in mutual savings banks during this same 21 year period was $608 per depositor. In 1912 it was $460 and in 1932, $800.

In making this type of comparison it must be borne in mind that the banks have until quite recently had another factor to consider with respect to postal savings deposits since, unlike other time deposits, the banks are required by law to post collateral to protect fully the postal savings funds redeposited with them.[6] In most cases, however, this should not be counted as an expense to the depository banks resulting directly from the acceptance of postal savings funds. The volume of holdings by banks of government and municipal securities far exceeds the volume posted as collateral for postal savings funds, and it seems hardly probable that, by and large, banks have found it necessary to make special purchases of securities for this purpose. Instead, they have in all likelihood merely posted securities they already held.

Even where the banks have had to make special purchases of securities in order to meet collateral requirements for postal savings deposits, a net profit was generally obtained. Insofar as the postal savings funds represented hoarded money that would never have reached the banks except through the system, the margin between

[5] *True Mission of the United States Postal Savings System*, excerpts from the report of Harry S. New, Postmaster General.

[6] Since the establishment of the Federal Deposit Insurance Corporation postal savings funds protected by insurance need not be covered by collateral.

the $2\frac{1}{2}$ per cent paid the Post Office and the yield on the security acquired for collateral purposes represented a profit that would have been completely lost to the banks. On those funds which otherwise would have reached the banks, the situation is somewhat different. If the money had been placed directly in the banks, instead of being first deposited in the system and then redeposited, there would have been no need of posting collateral therefor. Aside from the small legal reserve requirements, all the funds would have been at the disposition of the banks to lend at the prevailing loan rate. In those localities where the prevailing loan rate is 5 per cent, the margin over the $2\frac{1}{2}$ per cent paid the

TABLE II

SECURITIES POSTED BY BANKS AS COLLATERAL FOR POSTAL SAVINGS FUNDS CLASSIFIED BY INTEREST RATE OF THE SECURITY

| JUNE 30 | AMOUNT OF SECURITIES (000 OMITTED) | | | | PERCENTAGE DISTRIBUTION OF SECURITIES | | | |
|---|---|---|---|---|---|---|---|---|
| | All interest rates | Interest rate of $2\frac{1}{2}\%$ or greater | Interest rate of less than $2\frac{1}{2}\%$ | Interest rate unknown | All interest rates | Interest rate of $2\frac{1}{2}\%$ or greater | Interest rate of less than $2\frac{1}{2}\%$ | Interest rate unknown |
| 1911 | $4,141 | $1,044 | $174 | $2,923 | 100 | 25 | 4 | 71 |
| 1915 | 91,321 | 9,736 | 1,641 | 79,944 | 100 | 11 | 2 | 87 |
| 1920 | 199,264 | 75,353 | 837 | 123,074 | 100 | 38 | [a] | 62 |
| 1925 | 141,353 | 88,575 | 214 | 52,566 | 100 | 63 | [a] | 37 |
| 1930 | 204,154 | 122,294 | 134 | 81,726 | 100 | 60 | [a] | 40 |
| 1933 | 1,047,884 | 692,826 | 20,814 | 334,248 | 100 | 66 | 2 | 32 |

[a] Less than $\frac{1}{2}$ of one per cent.

Postal Savings System would have been close to $2\frac{1}{2}$ per cent, after allowing for reserves. When, on the other hand, the funds reached the banks through the medium of the Post Office, banks lacking adequate collateral earned only the differential between the $2\frac{1}{2}$ per cent interest required by the system and the yield on the government securities newly acquired for collateral. There was, however, still a differential in favor of the banks as the yields on most classes of governments bonds were apparently greater than the $2\frac{1}{2}$ per cent paid for the postal savings deposits.

No statistics are available on the yields on securities deposited with the Treasurer of the United States as collateral for postal savings deposits, but an approximate idea of the yield thereon may

be obtained by a consideration of the interest rates on such securities and a compilation of the yields on government securities in general. According to an average computed by the United States Treasury, the yield on bonds of the federal government has ranged from 3.31 per cent to 3.68 per cent between 1926 and 1933 and has been higher in earlier years.[7]

In Table II the securities posted by banks as collateral for postal savings funds have been grouped by the interest rate they bear. It will be noticed that a considerable proportion are known to have paid more than $2\frac{1}{2}$ per cent interest.

In some instances the Postal Savings System has been of genuine direct aid to individual banks. Postal officials early adopted the policy of taking funds refused by bankers in one state and redepositing them with bankers who desired them in other states. Frequently more money was on deposit to the credit of the Post Office in the banks of a state than had been received there by the Postal Savings System. It is possible that at times this had been of considerable aid to individual banks.

## II

Even more effective in mollifying the banks was the slowness with which the system developed. After a year and a half of operation all the post offices in the country reported deposits of $20,000,000, which was hardly $\frac{1}{4}$ of one per cent of the savings deposits in banks. Until the rapid growth of postal savings deposits in 1932, post office deposits never amounted to as much as $1\frac{1}{2}$ per cent of the total savings deposits in banks. (See Table III.)

Moreover, the post office officials were, from the beginning, anxious not to antagonize the banks, and, although they vigorously sponsored the Postal Savings System, they concentrated their efforts on bringing out hidden money. That they were successful in this direction is clear from the reports of the local postmasters, who constantly wrote to the head office of the receipt of money that had obviously been hoarded. Many unusual coins and issues of paper money no longer in circulation appeared and money, soiled from hiding places, was constantly being presented for deposit. In 1915 the Post Office Department found that no

[7] *Annual Report of the Federal Reserve Board, 1934*, p. 185.

appreciable number of depositors had abandoned sound savings institutions to become patrons of the Postal Savings System. The bulk of the deposits, it was reported, represented largely the hoarded savings of wage earners.

The banks recognized the possibilities for profit and, despite early protests, quickly signified their desire to receive postal savings redeposits. In 1912, one year after the system had been

TABLE III

POSTAL SAVINGS DEPOSITS COMPARED WITH SAVINGS DEPOSITS IN ALL REPORTING BANKS*

| JUNE 30 | POSTAL SAVINGS DEPOSITS (000 OMITTED) | SAVINGS DEPOSITS IN ALL REPORTING BANKS (000 OMITTED) | POSTAL SAVINGS DEPOSITS PER $100 OF BANK SAVINGS DEPOSITS | JUNE 30 | POSTAL SAVINGS DEPOSITS (000 OMITTED) | SAVINGS DEPOSITS IN ALL REPORTING BANKS (000 OMITTED) | POSTAL SAVINGS DEPOSITS PER $100 OF BANK SAVINGS DEPOSITS |
|---|---|---|---|---|---|---|---|
| 1912 | $20,237 | $8,404,373 | $.24 | 1924 | $132,814 | $21,188,734 | $.63 |
| 1913 | 33,819 | 8,548,345 | .40 | 1925 | 132,173 | 23,134,052 | .57 |
| 1914 | 43,444 | 8,711,975 | .50 | 1926 | 134,179 | 24,696,192 | .54 |
| 1915 | 65,685 | 8,807,420 | .75 | 1927 | 147,359 | 26,090,907 | .56 |
| 1916 | 86,020 | 9,459,308 | .91 | 1928 | 152,143 | 28,412,961 | .54 |
| 1917 | 131,955 | 10,875,602 | 1.21 | 1929 | 153,645 | 28,217,811 | .54 |
| 1918 | 148,471 | 11,534,850 | 1.29 | 1930 | 175,272 | 28,478,631 | .62 |
| 1919 | 167,323 | 13,040,393 | 1.28 | 1931 | 347,417 | 28,219,618 | 1.23 |
| 1920 | 157,276 | 15,188,641 | 1.04 | 1932 | 784,821 | 24,281,346 | 3.23 |
| 1921 | 152,390 | 16,500,663 | .92 | 1933 | 1,187,186 | 21,125,534 | 5.62 |
| 1922 | 137,736 | 17,578,920 | .78 | 1934 | 1,197,920 | 21,752,510 | 5.50 |
| 1923 | 131,671 | 19,726,534 | .67 | 1935 | 1,204,863 | 22,652,489 | 5.32 |

* Source: Postal Savings deposits—*Annual Report of Operations of the Postal Savings System, 1933.* Savings deposits—*Savings Deposits and Depositors in Banks and Trust Companies of the United States for the Years 1930 and 1935*, compiled and published by the American Bankers Association, p. 4.

organized, close to 7,000 banks, 29 per cent of all commercial banks in the country, were postal savings depositories.

Originally, any bank could qualify as a depository for postal savings funds upon posting the proper collateral. Later, with the establishment of the Federal Reserve System, the law was modified to give preference to Federal Reserve member banks after 1916. The law is still in effect in this form and, accordingly, postal savings funds are now offered first to local Federal Reserve member banks in proportion to their respective capital and surplus and only when no local member bank wishes to have the money is

it left with qualifying non-member banks. Since the beginning of the system the preponderance of depository banks has been national banks. The actual number of state member banks holding postal savings funds has been small, but this is due to the fact that there are relatively few state banks that have accepted membership in the Federal Reserve System, and the proportion of state member banks receiving postal savings redeposits has been about the same as for national banks. Table IV gives the number of postal savings depository banks and their relative numerical importance among all the banks of the country.

Not only did the banks qualify in large numbers as postal savings depositories, but they accepted as redeposits practically all

TABLE IV

Banks Holding Postal Savings Funds by Class of Bank

| June 30 | Number of depository banks | | | | Depository banks as per cent of active banks | | | |
|---|---|---|---|---|---|---|---|---|
| | All banks | Members of Federal Reserve System | | Non-member banks | All banks | Members of Federal Reserve System | | Non-member banks |
| | | National banks | State banks | | | National banks | State banks | |
| 1915 | 6,007 | 3,628 | 2,379[a] | | 21% | 48% | 13%[a] | |
| 1920 | 5,005 | 3,126 | 463 | 1,416 | 17 | 39 | 34% | 7% |
| 1925 | 3,549 | 2,533 | 481 | 335 | 13 | 31 | 33 | 2 |
| 1930 | 3,878 | 2,691 | 435 | 752 | 16 | 37 | 41 | 5 |
| 1933 | 5,521 | 3,272 | 543 | 1,706 | 39 | 67 | 77 | 19 |

[a] Not available separately.

the postal savings funds for which they were eligible. During the 22 years between 1911 and 1933, redeposits in the banks amounted, on the average, to 80 per cent of the postal savings funds. If to this were added the 5 per cent cash reserve required by law, only 15 per cent of current deposits were, on the average, invested in securities rather than kept in local bank accounts.

This proportion was, of course, not always constant. During the first decade of the life of the Postal Savings System well over 90 per cent of the deposits went to the banks. In 1921, however, the amount of postal savings funds held by the banks declined suddenly. Redeposits dropped from $124,000,000 in 1920 to $48,000,000 in 1921 despite the fact that deposits in the Post Office

fell off by only $5,000,000. This meant that instead of 79 per cent of the postal savings funds in the banks in 1920, only 32 per cent was in the banks in 1921. Conversely, the portfolio of the Postal Savings System increased from holdings of $24,000,000 in government securities in 1920 to $98,000,000 in 1921. This sudden change was probably due to the banking disturbance resulting from the post-war depression, for the large investment portfolio

TABLE V

Allocation of Postal Savings Assets

| June 30 | Postal savings deposits (000 omitted) | Allocation of postal savings assets | | | June 30 | Postal savings deposits (000 omitted) | Allocation of postal savings assets | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Reserve[a] | Redeposits in banks | Investments in securities[b] | | | Reserve[a] | Redeposits in banks | Investments in securities[b] |
| 1911 | $677 | 5% | 84% | | 1924 | $132,814 | 7% | 72% | 25% |
| 1912 | 20,237 | 5 | 92 | | 1925 | 132,173 | 6 | 74 | 25 |
| 1913 | 33,819 | 5 | 93 | | 1926 | 134,179 | 6 | 75 | 25 |
| 1914 | 43,444 | 5 | 94 | | 1927 | 147,359 | 5 | 78 | 23 |
| 1915 | 65,685 | 5 | 91 | | 1928 | 152,143 | 6 | 78 | 22 |
| 1916 | 86,020 | 6 | 94 | 2% | 1929 | 153,645 | 6 | 82 | 17 |
| 1917 | 131,955 | 5 | 96 | 2 | 1930 | 175,272 | 6 | 85 | 15 |
| 1918 | 148,471 | 5 | 95 | 3 | 1931 | 347,417 | 6 | 88 | 8 |
| 1919 | 167,323 | 5 | 81 | 17 | 1932 | 784,821 | 8 | 87 | 9 |
| 1920 | 157,276 | 5 | 79 | 20 | 1933 | 1,187,186 | 8 | 82 | 11 |
| 1921 | 152,390 | 3 | 32 | 70 | 1934 | 1,197,920 | 6 | 58 | 38 |
| 1922 | 137,736 | 6 | 32 | 67 | 1935 | 1,204,863 | 6 | 32 | 64 |
| 1923 | 131,671 | 6 | 47 | 54 | 1936 | 1,231,674 | 8 | 16 | 78 |

[a] Includes receivables and the cash reserve held by local postmasters to meet small daily demands.

[b] Includes postal savings deposits not desired by local banks and the surplus fund derived from profits.

of the system was soon rapidly reduced and within a few years, the banks again held over 70 per cent of postal savings deposits. By 1931, close to 90 per cent of the Postal Savings System assets were held as redeposits in the banks. Table V shows the allocation of postal savings assets since 1911.

## III

During 1933-4, a changed attitude on the part of the banks began to appear. Bankers' organizations and newspapers became aware

of what they termed "unfair competition" and were quite outspoken in their determination either to abolish or markedly restrict postal savings. It was attacked on all fronts, but most of the protest by the banks was frankly on the grounds of unfair competition. The New York and New Jersey Bankers' Association adopted resolutions to this effect.[8] At the Missouri Bankers' Association it was said: "Through the Postal Savings System, . . . the Government has created the most unmanageable form of competition for deposits the country banks have to cope with."[9] The President of the Arkansas Bankers' Association asked that, "if Postal Savings must continue, its interest rate should be reduced to 1% as the banks cannot afford to pay the rate now required on redeposits."[10] In other parts of the country, bankers' associations passed condemnatory resolutions.

Some objected to a continuance of the system, when the federal deposit insurance came into operation, since the insurance provided substantially the same degree of safety to bank deposits as the government guaranty gave to postal savings. The Michigan Bankers' Association expressed the sentiment of several others when it passed a resolution asking for the abolition of postal savings as "it has now served its purpose."[11]

In an editorial, the *American Banker* spoke of: "small . . . nonmember banks . . . suffering defeat when their communities went down to disaster under the combined assault of the artificially prolonged depression and the competition of the Postal Savings System with its guarantee of deposits and its steady undermining of local credits and local values."[12]

The *American Banker* carried a series of feature articles demanding that the Post Office require 60 days' notice of all patrons for withdrawal of deposits as provided in the Banking Act of 1933.[13] This would have seriously affected the operation of the system.

[8] *Commercial and Financial Chronicle*, January 26, 1935, p. 583; May 30, 1936, p. 3610.

[9] *Proceedings of the Annual Convention*, Missouri Bankers' Association, May 17, 1933.

[10] *American Banker*, June 23, 1934, p. 4. [11] *Ibid.*, p. 1. [12] April 3, 1934, page 4.

[13] Sec. 11. (c) . . . Any depositor may withdraw the whole or any part of the funds deposited to his or her credit with the accrued interest only on notice given 60 days in advance and under such regulations as the Postmaster General may prescribe; but withdrawal of any part of such funds may be made upon demand, but no interest shall be paid on any funds so withdrawn except interest accrued to the date of enactment (June 16, 1933) of the Banking Act of 1933.

The attacks on postal savings were the reflection of a changed relationship between the banks and the Postal Savings System and were undoubtedly a result of the declining interest rates. In 1933 the average rate of interest paid customers by member banks of the Federal Reserve System fell to 2.55 per cent, a scant .05 of 1 per cent over the rate paid the Postal Savings System, and in 1934, the average rate to customers declined to 2.36 per cent, being .14 of 1 per cent less than that paid for postal savings funds. At the end of 1934 the Federal Reserve Board ruled that the maximum rate payable on time deposits should not exceed 2½ per cent,[14] so that the interest on postal savings funds became, at best, the same as for other deposits.

At the same time the banks were faced with a plethora of funds on which their earnings were very small. During 1934 open market rates on short-time money reached the lowest on record; offering rates on bankers' acceptances fell to ⅛ of 1 per cent; the rate on open market commercial paper and on call loans was 1 per cent or less; the average discount on issues sold by the United States Treasury hovered around ¼ of 1 per cent and lower; rates charged customers averaged lower than at any time in the post-war period; government bonds sold at levels yielding only about 3 per cent and by 1936, less than 2½ per cent. Idle funds of banks, as exemplified by the excess reserves of the member banks of the Federal Reserve System, reached high levels. With such low rates of interest and so much idle money there was little opportunity for the banks to earn the 2½ per cent interest which they were required to pay the Post Office for postal savings funds.

Nevertheless, the banks did not at once join in these protests against the Postal Savings System by withdrawing in any considerable numbers from the list of postal savings depositories. On June 30, 1933, postal savings funds were on deposit in 38 per cent of the banks. There was, as had been the case in every other year, considerable shifting in the individual names on the list of depositories, some being removed and others added. The opponents

[14] Governor Schaller of the Federal Reserve Bank of Chicago found in his district that in many banks not even this interest rate was paid. He told the Illinois Bankers' Association that a survey had shown that approximately 10 per cent of the Federal Reserve member banks in that district were paying no interest at all on any kind of deposits, savings or demand.

of the system made much of the withdrawals, while ignoring the additions, partly because some of the withdrawing institutions were large New York City banks. These large banks were uninterested in postal savings in view of their large commercial deposits which far overshadow the postal savings funds.

## IV

It was not until near the end of 1934 that there was actually a marked decline throughout the country in the total number of banks holding postal savings. From 5,365 depository banks on June 30, 1934, the number decreased to 4,507 by June 30, 1935, and to 3,225 by May 31, 1937. In all parts of the country, banks were refusing to hold any postal savings funds, but particularly was this true among the large city banks.

Even more striking at this time was the curtailment of postal savings funds among those institutions still remaining depositories. During the year ending June 30, 1934, $282,000,000 of postal savings funds were refused by the banks, causing a decline of close to 30 per cent in the total redeposits of postal savings outstanding during the year. In the following months this downward trend was steadily continued. By January 31, 1937, the banks held about $\frac{1}{9}$ of the total deposits of the system, whereas in earlier years, it will be recalled, the banks held as high as 90 per cent of the postal savings money.

During 1935 further complications in several states accelerated the reduction in the volume of redeposited funds. In New York and New Jersey the banking commissions ruled that no banks under their jurisdiction would be permitted to pay more than 2 per cent interest on time deposits. This automatically barred the banks in those states from accepting postal savings funds and the money was withdrawn by the system. Some question arose in view of recent banking legislation as to whether the Postal Savings System was still bound by the provisions of the organic act as to the interest rate required on redeposited funds, and the United States Attorney General was asked for an opinion. He ruled on December 26, 1935, that the latest laws made the redeposit of the postal savings funds at lower rates permissive but not mandatory.[15]

[15] 38 Opinions of the Attorney General, Op. No. 33.

The Trustees of the Postal Savings System, however, retained the $2\frac{1}{2}$ per cent rate in order that the system might earn sufficient to continue to be self-supporting. As a result, by the beginning of 1936, there were no postal savings funds in active banks of either New York or New Jersey.[16]

As these funds have been refused by the banks, the post offices have transferred the money to Washington for investment and the investment portfolio of the system has been increasing steadily. On June 30, 1932, 87 per cent of the postal savings deposits were in redeposits and 9 per cent in securities, while by January 31, 1937, redeposits amounted to 11 per cent and the investments to 84 per cent of the deposits.

## V

It appears that the attitude of the bankers toward the Postal Savings System is closely related to prevailing banking conditions. When interest rates are high, the banks can earn a large return on their loans and investments, but, at the same time, they must pay high interest to procure the money they need. At such times, the funds of the Postal Savings System are a source of easily handled, cheap money; bankers then voice little opposition or may even bestow mild praise on the Postal Savings System. Such a period occurred from the establishment of the system in 1911 to 1933.

On the other hand, when bankers are able to earn only a low return on their loans and investments, the interest rate of $2\frac{1}{2}$ per cent per annum required by the Post Office on its redeposits looms large, both against the lower rates paid to customers on the one hand, and the lower bank earnings, on the other. At such times postal savings redeposits are commonly refused by banks. Since 1933 banks have been refusing postal savings funds and withdrawing from the list of depository banks. At the same time, they have objected vehemently to the continued operation of the system as government interference in private activity, presumably in preparation for the future when they will once more want these considerable postal savings funds at a cheaper rate.

[16] In Wisconsin the rate of interest payable on time deposits was also reduced to 2 per cent but postal savings funds were specifically excepted.

# COMMUNICATIONS

## COMMENTS ON PROFESSOR ANDERSON'S ARTICLE, "MARGINAL PRODUCTIVITY VERSUS CLASSICAL RENT"

I have the following observations to make concerning the article, "Marginal Productivity Versus Classical Rent" (*The Southern Economic Journal*, July, 1937), by Dr. M. D. Anderson:

(1) On page 48 Anderson says, "The net return, or appreciation, of that capital over a period of time must be known in order to find the rate of interest. To do this the time factor must be introduced formally into the production equation." A reading of the very important article by Dr. Oskar Lange, "The Place of Interest in the Theory of Production" (*The Review of Economic Studies*, Vol. III, No. 3, June 1936, pp. 159–192) will show that it is not necessary to introduce the time factor formally into the production equation in order to determine the rate of interest.

(2) Section 2, pages 49 to 51, seems to me to be based on a misconception. The very existence of rent implies the absence of perfect mobility of savings. This in turn implies the absence of perfect competition. Under these conditions, of course, the marginal productivity theory does not apply without modification.

The possessors of capital goods into which savings cannot be transformed without great difficulty, get a *quasi-rent* (positive or negative). The existence of rent may destroy or seriously modify, the marginal productivity principle. I thought that I clearly indicated this fact on page 524 of my article, "Marginal Productivity and the General Pricing Process," to which Anderson refers, and wherein I point out that Ricardian rent is a special case of the more general phenomenon (quasi-rent).

(3) It is quite possible to assume that the production function is not a homogeneous function of the first degree and yet deduce the propositions:

(a) That each factor is paid in accordance with its marginal productivity, and

(b) That the entire product is distributed among the factors in accordance with the marginal productivity principle.

This solution involves finding a point or points on the non-homogeneous production function at which (a) and (b) hold. If we use a homogeneous production function at the outset (as I did in my article) then we are assuming that *every* point on that function satisfied both (a) and (b).

Also, it is possible to introduce limitational factors (i.e. factors whose use is determined by technological as contrasted with economic considerations) into our equations and show the modifications that this brings about in the theory. In this solution, the point corresponding to the optimum scale of production depends on the prices of the limitational factors. There is no longer a locus of these points among all technically possible combinations. As the prices of the factors vary, any point on the production function might be an optimum scale.

These extensions and improvements suggested themselves to me after the publication of the above mentioned paper of mine.

*University of Chicago* HENRY SCHULTZ

## REJOINDER TO PROFESSOR SCHULTZ

Permit me to make the following rejoinder to the criticisms of Professor Schultz, point by point:

(1) The first of the two sentences quoted from my article is quite correct. The second contains an error in that I did not say quite what I meant to say. The second sentence should read, "The time factor must be introduced formally at some point in the argument." Professor Schultz is quite right in his contention that such introduction need not be made in the production equation itself.

(2) It should be noted that Professor Schultz and I agree that rent is more or less destructive of the marginal productivity principle. Our quarrel is not with regard to my main contention but as to the logic whereby that contention may be justified.

(3) Even if it is possible to deduce the fundamental conclusions of the marginal productivity theory without the homogeneity assumption it is none the less true that (a) it is convenient to make this assumption in deriving the theory and (b) the assumption is

not an unreasonable one from the long run point of view. Neglecting variations in degree of plant utilization it would seem that the production functions would have to be homogeneous in the first degree as a matter of common sense. Moreover, Professor Schultz himself has shown in the article to which he refers that the functions must be homogeneous if certain fairly reasonable conditions are posited with respect to the coefficients of production and their partial derivatives.

Finally, it should not be overlooked that if the two conclusions of the marginal productivity theory as stated by Professor Schultz obtain, then the production equation must be homogeneous in the first degree. That is to say, even if it is possible to derive the two conclusions without the aid of the homogeneity assumption the condition of homogeneity is found to obtain when the results are reached. Conclusion (a) as stated by Schultz requires that

$$\left.\begin{aligned} p_p &= \frac{\partial F}{\partial P} pb \\ p_k &= \frac{\partial F}{\partial K} pb \\ p_t &= \frac{\partial F}{\partial T} pb \end{aligned}\right\}$$

while condition (b) is mathematically stated by the equation

$$p_b Q_b = p_b\left(\frac{\partial F}{\partial P} P + \frac{\partial F}{\partial K} K + \frac{\partial F}{\partial T} T\right)$$

Whence it follows that the production equation,

$$Q_b = F(P, T, K)$$

must be homogeneous in the first degree, by the converse of Euler's theorem. (See Osgood's *Advanced Calculus*, pp. 121–2, section 8.)

*University of Florida* MONTGOMERY D. ANDERSON

# BOOK REVIEWS

*Compensating Industrial Effort: A Scientific Study of Work and Wages.* By Z. Clark Dickinson. New York: Ronald Press, 1937. Pp. xii, 479. $4.50.

*Salaries, Wages and Labor Relations.* By J. O. Hopwood. New York: Ronald Press, 1937. Pp. ix, 124. $2.50.

*Wage Determination.* By John W. Riegel. Ann Arbor: Bureau of Industrial Relations, University of Michigan, 1937. Pp. v, 138. $1.00.

Should wages in each company be related to market rates, or exclusively to factors within the organization, such as its profit position? What other considerations influence wage determination? How do profit sharing plans fit into the picture, both present and future? Answers to these questions are presented by the three authors, though from a somewhat different approach. Despite many agreements, certain interesting differences of opinion are apparent.

Mr. Hopwood's book is a "working manual" of a general plan adaptable to any company for evaluating jobs within one firm for purposes of payroll administration. The author considers the "going rate" theory of wages obsolete in modern industry. Each enterprise is a self-contained, self-sustaining entity of production. Individuals are trained for, and produce at, distinctive jobs within each organization.

Mr. Hopwood's thesis is "that rates of compensation to individuals employed in an enterprise should be coordinated and that earnings, individually and collectively, should represent *equitable participation* in the distribution of income from production, rather than just the price which the individuals can get for their labor."

A relatively new theory is here advanced, which may provide a balance or alternative for attempts to justify individual rates with "market rates." Certainly it emphasizes the "ability to pay"

doctrine of wages, as well as the unity of each enterprise and importance of permanency of employment. It may even furnish a working basis for a new application of profit sharing.

*Wage Determination* reports information obtained from field investigations of fifteen leading companies and conferences of representatives of sixty concerns. These organizations follow a policy of paying at least the "going rate" in the locality for each service, which the author considers fundamental to a rational treatment of wage problems. Careful comparisons are made, primarily of key jobs, and quotations for several jobs within unskilled, semi-skilled, and skilled job ranges, are obtained. Each company stresses the necessity of studying the services rendered for wages quoted, so as to obtain only data on comparable occupations.

In times of change, the several employers in the market watch each other's rates, and these rates move together. The most profitable companies and the "plungers" lead the upward pace; the marginal firms call the turn and lead the recession. By making reviews and adjustments frequently wage setting becomes an evolutionary process and effective rates can be kept highly satisfactory both to employers and employees.

Several plans for the grading and adjusting of wages are described. One company, a public utility, employs a plan similar to that proposed by Mr. Hopwood, which the author considers suggestive for other firms that find the local labor market a poor determiner of wages.

Ranges of current rates for specific services are often so wide that they permit exploitation, and may be inconclusive for rate alignments. If labor markets were to establish values for given services more accurately both employers and organized employees would have less opportunity for exploitation. Reporting of values of key services, each clearly defined and identified, would help considerably.

Professor Dickinson's book is a sequel to his *Economic Motives*. *Compensating Industrial Effort* deals with the main problems of labor management, welfare, and progress in the related sciences. In the reviewer's opinion the author is unusually successful in his applications of economic theory, statistics, and industrial psychology

to wage problems in their modern setting. Some interesting topics discussed include the following: incentives, restriction of output and methods for its avoidance or reduction, influence of modern production control on recent trends in wage plans, large executive salaries and bonuses, the Stakhanoff Movement in Russia, varieties of social control of wages, profit sharing, suggestion systems, many examples of specific plans and techniques used by particular companies, some often neglected sources of friction that furnish food for labor agitators, and ways of reconciling wages within a company with market rates. The treatment of each topic is very thorough. It is unfortunate, however, that more attention is not given to the influence of trade unions on wage plans and rates.

The author recognizes that some occupations are so specialized that no "going rate" for them can be found; and for these jobs factor-to-factor comparisons enable rates to be set which are reasonably related to jobs which, in turn, can be located with reference to outside bench-marks. The search for "going rates" with which to align individual wage scales should be encouraged rather than abandoned. This movement will be facilitated by better current quotations of labor, which in turn may be promoted by the development of productivity standards inter-plant in scope and developed in conjunction with inter-plant job analysis. Agencies that may further this program include trade associations and journals, labor organizations and journals, and governmental wage statistical bureaus.

The employer's ability to pay as a factor in compensation plans is prominent in the author's views on profit sharing. Some form of the profit sharing principle might contribute toward continuity of employment, by adjusting labor incomes to the employer's ability to pay, in a less spasmodic manner than is afforded by the mechanisms of standard wage rates and layoffs when the employer cannot pay them. The speculative feature of profit sharing is an advantage, rather than a weakness, making the worker's job safer and his annual earnings probably higher. Even when net profit eventually disappears the employees' efforts to maintain it will prolong the productive period.

Promotion of employee suggestion systems regarding improve-

ments of equipment, methods, products, and sales prospects, is emerging as a phase of good labor management relatively distinct from those of foremanship and collective bargaining. Should another reaction against the "wages system" develop, as in 1923, the value of such investigations into the characteristics of various types of industrial partnerships will be enhanced, since these may be alternatives or complements to more socialistic measures.

*University of Arkansas* PEARCE C. KELLEY

*Men, Women, and Jobs*. By Donald G. Paterson and John G. Darley. Minneapolis: University of Minnesota Press, 1936. Pp. v, 141. $2.00.

This volume is a concise presentation of the methods and the findings of a five-year study by the Employment Stabilization Research Institute into the causes of unemployment. The study was precipitated by the tragedy of the depression but its methods and findings are important for the intelligent correlation of workers and jobs at all times.

It is a synthetic product of research workers in the field of economics, sociology, medicine and psychology. Each applied their respective methods to the collection of data from the men and women most seriously concerned about unemployment—the unemployed.

Recognizing that individuals are each a separate, complex case, the committee analyzed 1093 unemployed persons to find the combination of reasons why each had become unemployed. This analysis consisted of: extensive interviews during which information was gained about the person's family history, education, and occupational history; tests of verbal intelligence, clerical aptitude, mechanical aptitude, and vocational interests; and a thorough physical examination. A significant difference was found between the group who became unemployed early in the depression and those who became unemployed late in the depression, while there was very little difference between the latter group and those who remained in employment. The results of the investigation point out the fallacy of considering "The unemployed" as an undifferentiated mass who are out of work solely because of economic conditions. They show that, to a large ex-

tent, these "early unemployed" were laid off (while other persons remained in employment) because of inferior abilities, lack of training, training in lines inappropriate to their aptitudes, or pursuance of occupations inappropriate to their aptitudes or physical conditions, in which they are bound to be less successful.

Personnel administrators cannot ignore the procedure developed by which the characteristics required by different groups of occupations are sought as a basis for sound placement practices. With these characteristics determined, the authors propose that occupational ability and interest patterns rather than occupational experience are of primary importance to good job adjustment.

The study characterizes our economic system as a dynamic and and changing order which requires intelligent reform but confines its search to ways of better utilizing the human abilities required by the present order. Both the method described and the findings outlined will make valuable contributions to public opinion on the problem of unemployment and to an understanding of vocational education and personnel administration as related to this better utilization of our human resources.

*Tennessee Valley Authority* E. B. SCHULTZ

*Labor's Search for More*. By Malcolm Keir. New York: Ronald Press, 1937. Pp. xii, 527. $3.50.

When the reader becomes accustomed to the irksome bold face paragraph headings he finds this an extremely interesting and valuable survey of labor history preceding 1929. In a comparatively few pages the author has reviewed the causes of industrial unrest and what both labor and employers have done to deal with that unrest.

The book might easily be divided into seven major parts held together throughout by the theme of "more for labor." Part one gives a factual background on which the remainder of the discussion can be based. Next the writer presents an interesting history of the strike as a weapon to obtain more. This is followed by a short discussion of employers' associations and a chapter on methods of industrial peace. Part five might be called labor's search for more through legislation and the courts. The sixth general section describes the activities of those who, finding no

hope in the present system, have sought to change it. The final section concerns special problems of Southern and Negro workers.

All of the book has value but parts of it stand out as descriptions of portions of the labor movement too often neglected. It would be hard to find, for instance, a better brief account of the subversive activities of employers' anti-union organizations including the National Association of Manufacturers and the Chamber of Commerce of the United States. Of the N.A.M., Professor Kier says in summary, "It may have been, in part, responsible for the fact that the American labor movement had in it scarcely perceptible motion, but instead became a 'job trust' fighting capital 'trusts' for existence."

Another outstanding section describes the activities of so-called " 'Red' Farmers," " 'Red' Industrial workers," and the "Martyrs" of the left wing labor movement. Never showing apparent bias, the writer none the less has written a damning condemnation of those smug individuals who apparently think that the killing of Sacco and Vanzetti and the long imprisonment of Mooney can be condoned because the victims held radical beliefs. "Were Sacco and Vanzetti guilty of atrocious murder;" he says, "or were they unfortunate sacrifices to the unpopularity of their beliefs? Let the case itself supply the answers." It does.

Professor Kier's section on the South shows how little progress in the search for more had been made in this section before 1929. The problems of farm, mine, lumber, and factory workers are all described and one gets the impression that the author thinks militant trade unionism might have helped conditions to some extent. His description of the worst mill villages is perhaps a little overdone and he errs in saying the rent for the best houses was 75 cents a room a week. There were such rents in 1929 but the usual charge was 25 cents a room for the average mill house and less than that for the worst ones. These are details, however. In general his treatment of Southern workers is adequate and his diagnosis sound though brief.

To the text Professor Kier has added an excellent selected list of references.

This book is one that could be read with profit by all interested in the present labor unrest. It should be particularly recom-

mended to business men and students who earnestly desire to understand labor's viewpoint as shown by the history of the labor movement.

*Duke University* FRANK TRAVER DE VYVER

*Butter and Oleomargarine: An Analysis of Competing Commodities.* By W. R. Pabst, Jr. New York: Columbia University Press, 1937. Pp. 112. $1.50.

This is a timely study of a practical problem. It is timely both because it deals with a current political issue affecting an important branch of our food economy—fat production—and because it is published when public confidence in economics and economists is none too great. To those who care to read, this monograph should furnish proof that even a highly complex relationship of economic, political and social phenomena can be greatly clarified with the aid of highly developed economic and statistical theories and techniques.

Many readers will be amazed at some of the findings of this study. One example must suffice to illustrate this point. The average reader is apt to assume that the consumption of oleomargarine tends to decline in times of prosperity—at least relatively to butter consumption—and to rise in times of depression. The exact opposite is the case as this study shows. The explanations offered are as ingenious as the facts are surprising.

This unusually stimulating study should interest practically every specialist in the field of economics, from the abstract theorist and the economic historian, to the most hard boiled practioner in political economy. Are you interested in the incidence of various taxes? Here is a wealth of illustrative material throwing light on your problems. Do you teach economic history? Here is one of the most fascinating chapters of all economic history. Are you concerned with institutional implications of economic phenomena? Here is a highly dynamic situation where institutional factors and economic laws seem to clash in head-on collision; for the butter and oleomargarine problem cuts across some of the most ominous issues of modern economic life, to wit: the conflicts between agriculture and industry; country and town; small-scale and large-scale manufacture; tropical and temperate zone agricul-

ture; producers and consumers; and so on down the line. Are you particularly concerned with problems of methodology? Here is an ingenious application of the latest devices of pure theory and advanced statistics to complex phases of reality.

We teachers of economics could do a great deal worse than to collect a half dozen of such monographs, chosen for the diversity of their contents and the manner in which they complement each other, and to make such a collection the basis of advanced undergraduate and graduate courses designed to develop *comprehension* of social-economic realities.

Were this little volume to be used in such a course, the issue might well be raised whether its author is revealing a slight bias in favor of "the urban complex." One seems to scent a subconscious predilection for consumer interests, and wonders whether a sound national economic policy must not give the fullest recognition to the social implications of dislocations in production involving considerable numbers of people. This last remark, however, should not be interpreted as a criticism of the study; for, the author has carefully guarded himself against such criticism by clearly indicating the boundaries of the field which he cultivates.

*University of North Carolina.* Erich W. Zimmermann

*Studies in the Theory of International Trade.* By Jacob Viner. New York: Harper & Brothers, 1937. Pp. xv, 650. $4.50.

Professor Viner's new volume is not intended to be a systematic presentation of the theory of international trade. As the title indicates, it is a collection of studies on various aspects of the theory of international trade, most of the studies being devoted to further refinement of the classical approach to international trade theory. Nearly half the volume is concerned with a historical treatment of monetary theory as it affects the theory of international trade. Several of the essays have been published previously, but these have been substantially revised.

It is impossible to read the excellent essays on monetary controversies in England without being impressed by the antiquity of our monetary problems. The theories of money and prices, and the proposals for monetary control, that have only recently become an accepted part of our knowledge on monetary questions

were being discussed by economists, business men and statesmen in England more than a century ago. Professor Viner, who is so completely familiar with the old and the new literature on these questions, has presented a critical analysis of the opposing views in these English monetary controversies that are extremely valuable for the light they throw on contemporary problems.

The greater part of Professor Viner's volume is devoted to a consideration of the more controversial aspects of the classical theory of international trade. Among other questions, the effect of differences in wages on the course of international trade is reexamined. Where differences in wages are of the equalizing kind, international trade will be determined by comparative real costs. Where differences in wages are due to restrictions on the flow of labor to the high-wage industries, the usual analysis cannot be applied. Even under these conditions, however, Professor Viner regards a policy of free trade as preferable to protection.

Because differences in wages are generally not of the equalizing type, comparative costs cannot be the final determinant of the direction and terms of international trade. Under such conditions trade is determined on the basis of the availability of workers for particular types of production, the terms of trade depend on the relative utility of the commodities in different countries, and differences in wages are the result of the terms of trade.

This, of course, is a form of the general principle that Ohlin has offered on the theory of international trade. Even if labor were not immobile within a country, so that differences in wages would be of the equalizing type, Ohlin's principle could be reconciled with the doctrine of comparative cost, for productivity would be relatively higher in those industries in which technical conditions permit the use of large quantities of the available factors of production without a rapid diminution of productivity. Ohlin's principle would then be of tremendous importance in explaining what lies behind the emergence of a comparative advantage in one or another field of production. Once it is admitted that nonequalizing differences in wages are pervasive, it becomes necessary to recognize the limited applicability of the theory of comparative costs.

Without accepting the finality of the views expressed by Pro-

fessor Viner in this volume, one cannot deny the great usefulness of these studies to economists interested in the theory of international trade and money.

*University of North Carolina* E. M. Bernstein

*Dictators and Democracies*. By Calvin B. Hoover. New York: Macmillan Co., 1937. Pp. XI, 110. $1.50.

We seem to be far enough along in the life history of dictatorships to begin to have books appear about them. One of the best brief analyses of how dictatorships arise, how they function and some of the problems they create is Professor Hoover's little volume. It consists of five essays, three of which previously appeared in the *Virginia Quarterly Review*.

The author sees the World War as the background cause of the present dictatorships, with the recent economic depression and general social chaos as contributing factors in the case of Germany. He thinks dictatorship is brought about not so much by the dynamic of a new leader nor by new forces at work but rather by the weaknesses in the old order preceding the *coup d'etat*. With a resolute will to suppress would-be-dictators, democracies can survive unless the masses become too wretched and desperate. Common to all three of the leading dictatorships (Russia, Italy and Germany) are the following characteristics: An absolute state with which every activity must be integrated; a determined drive toward self-sufficiency; increasing armaments and emphasis on force; terror as a marked social institution; expropriation of property income for the service of the state; the worst suffering visited upon the middle class intelligentsia. Differences are that in Russia dictatorship is oriented around the proletariat, in Germany around race, in Italy around the state; that in Russia property has been socialized as to ownership as well as use, in the other two chiefly as to use; in Russia the national problem is defense, in the other two aggression. The totalitarian state in Germany and Italy, contrary to popular belief, is about as much the enemy of liberal capitalism as it is in Russia. Laissez-faire capitalism depends on parliamentary government.

The reviewer looked in vain for two, perhaps minor, points. What about Japan? Does she belong in the picture? If so, where?

What about modern science working toward a more centralized and integrated civilization? Does this play against the liberal, democratic, laissez-faire scheme and toward the totalitarian system? Was the nineteenth century democracy's heyday because it was a century of small units of production, relatively free markets, abundance of land (in America at least) and absence of severe technological and political pressures? Are the twentieth century forces in the realms of technology and economic life inevitably driving us toward powerful central authority? Does this mean dictatorship? If the people can elect their dictator, is it still democracy? Can you have democratic dictatorship?

*The Woman's College,* ALBERT S. KEISTER
*University of North Carolina*

*The New Soviet Constitution*. By Anna Louise Strong. Henry Holt & Co., 1937. Pp. vii, 169. $1.50.

This little book consists of an excellent translation of the new Soviet constitution with some chapters of propaganda explaining and justifying the new constitution in particular and Soviet institutions and practices in general. These chapters are as convincing as it is possible for them to be in the light of public knowledge of present conditions in Soviet Russia. For example, the author quite shrewdly points out that the number of persons disqualified to vote by the old Soviet constitution on account of membership in the former propertied classes was a smaller proportion of the total population than was the proportion long excluded from similar rights in the United States on account of failure to possess property.

Miss Strong defends the continued maintenance of the one party system on the somewhat naïve ground that there no longer exists permanent cleavages of interest in a socialistic society such as that of the Soviet Union. She further says: "If the Communist Party used this 'vocation of leadership' . . . to gain for themselves unequal wealth or the monopoly of government, this would be indeed a serious violation of democracy and the right of popular self-expression. But all observers of actual life in the Soviet Union agree that this is not the case." This supposed unanimity of opinion of observers is a fiction, however.

The author is on firm ground when she points out some of the contradictions between democracy and capitalism. The current "Blood Purge" in Soviet Russia is unanswerable evidence, however, that whatever the new constitution may mean in terms of recognition of the worker's right to economic security, it is utterly meaningless in terms of providing constitutional protection for freedom of thought, of speech, and of the press. Likewise when the new Constitution provides in Article 127: "Citizens of the USSR are guaranteed inviolability of the person," and at the present time thousands of people are being arrested and at least hundreds shot without public trial, if the Article means anything it is something far different from what such words ordinarily convey. It is interesting to note that one of the framers of the new constitution whom Miss Strong quotes has been stripped of his positions as Vice Commissar of Justice and head of the Institute of Soviet Law and has perhaps by this time gone through that final process of "liquidation" from which there can never be any constitutional appeal.

*Duke University* CALVIN B. HOOVER

*The New Deal: An Analysis and Appraisal*. By the editors of The Economist (London). New York: Alfred A. Knopf, 1937. Pp. ix, 149. $1.50.

While admitting that "he who expresses a judgment merely exposes his own preconceptions", the authors of this slim volume entertain the hope that, in their appraisal of the New Deal, three thousand miles of ocean will greatly reduce the force of partisan bias which plagues the analytical work of American economists. The book fulfills this hope. Its tone has all the judiciousness and equanimity for which the current school of moderate liberal economists is noted.

Although the pro and con method of appraisal is used, the balance struck is not the same for all New Deal legislation. With respect to unemployment, approval is given to work relief but not to the expansion of public works. The insurance fund principle of the Social Security Act comes in for some deserved criticism. In production regulation, the authors find the N.R.A. or "cartels for all" bad, but fortunately ineffective. Nature is given

more credit than the A.A.A. for increasing the farmers' bargaining position. The dismal flop of the highly desirable rehousing program is blamed on the failure to realize that, with present building costs, the lowest income groups simply cannot afford decent housing without subsidization.

The financial policy of the New Deal is approved with reservations. The editors do not regard the public debt as alarmingly high. Deficit financing is given more credit for early recovery than is the cheap money policy. Devaluation was not forced upon us, nor was it necessary for recovery. Regulation of the securities market was overdue, but the present regulations may result in an undesirable instability. The success of the regulation of both the banking and power industries was, in the authors' views, impaired in formulation and application by a prejudiced and overcritical approach.

The President's attitude, particularly as expressed in public utterances, makes the hostility toward him many times stronger than opposition to his policies. In conclusion the authors find that the New Deal has merely approached the real social problems and has not supplied even temporary solutions. They are willing to say at the end, however, that "Mr. Roosevelt may have given the wrong answer to many of his problems, but he is at least the first President of modern America who has asked the right questions."

*University of North Carolina* R. S. Winslow

*The Development of Economic Society*. By George Matthews Modlin and Frank Traver de Vyver. Boston: Little, Brown & Co., 1937. Pp. x, 452. $1.40.

"The economic system of the present day did not emerge suddenly to meet contemporary needs, but evolved through centuries of change in the structure of social and economic organization." In this, the first sentence of this volume, its authors adequately and succinctly indicate its nature and purpose. They have purposed to write a simple evolutionary statement of economics for beginning students. They have succeeded so well that many teachers will be sorely tempted, if not impelled, to reorganize their offerings to utilize this attack.

Their approach, as the opening sentence also indicates, is that of the institutional school. The book is made up of four parts. Each part deals with an era of institutional development. Part One deals with "The Medieval Economy", Part Two, the era of "Economic Nationalism", Part Three, the Economic Revolution, and Part Four, with the modern era since 1860. Economic institutions and thought prevailing during each era are evaluated in terms of the times during which they flowered. In each part, the reader learns significant principles of economics as the growth of the principal social and economic institutions are depicted.

On the whole, this book offers more from the point of view of approach and organization than in originality of content. As an economic history, it is general in its treatment. Its content is sufficient, but yields the results of no new researches. Yet, in their treatment of contemporary institutions in the concluding part, and, especially, in their description of the decline of economic individualism, the authors have marshalled their materials so competently as to offer a simple but significant interpretation of modern economic society.

This volume is the first of a series of six small volumes being prepared by members of the Department of Economics and Social Institutions, Princeton University. This entire series is "designed to meet the requirements of an introductory course in economics." "The series", its authors contend, "involves important innovations in format, in point of view, and in content." That the elementary course in economics commonly needs some renovation is generally agreed. If the current volume is a fair sample of the series, future students may be spared the deadening rigors of introductory courses in "economic principles." Instead, economics may contain for them the breath of life it has and deserves.

*University of Richmond* JOHN J. CORSON, 3RD

*Life on the English Manor*. By H. S. Bennett. New York: Macmillan Co., 1937. Pp. xviii, 364. $4.50.

The Cambridge Studies in Mediaeval Life and Thought present history as the reconstruction of the past. The extreme care with which accuracy is sought is indicated by the provision for the

publication of *errata* covering whatever errors of fact may be discovered by readers and reviewers. Sound scholarship alone can stand this test.

The emphasis upon actuality rather than upon opinion makes it possible for a work on economic history to be written by a lecturer in English. Realistic literature must inevitably be founded upon a deep knowledge of life: and it is but a short step from creating an imaginative superstructure to confining one's efforts to a vivid portrayal of actual conditions. *Life on the English Manor* is an outstanding example of the rare combination of sound historical research with excellent literary presentation.

Manorial life was marked by diversities rather than by uniformities. It was the customs of thousands of more or less independent units that formed the basis of the legal and philosophical theories of Maitland and Vinogradoff. Mr. Bennett feels that "our present knowledge of the legal position far outweighs our vaguer conception of the economic and social life in those thousands of English villages and hamlets scattered up and down the countryside"; and he sets himself the task of reducing this disproportion.

The problem of maintaining unity without suppressing diversity has been cleverly solved in the prologue—"a faire field full of folke." Here we have a picture of the life of a peasant that both stimulates interest and provides an invaluable frame for the wealth of information contained in the twelve succeeding chapters.

No aspect of the peasant's life is neglected. Land holding and agricultural methods are explained with admirable clarity. The nature of servile tenure is indicated by means of specific examples. Manorial administration and the manor court bring out manifold points of interest. Chapters on "Everyday Life" and "Merry England" bring together the various forces and factors that circumscribed the serf's life. "The Road to Freedom" furnishes the book with a logical conclusion.

It is impossible to give adequate impressions of the atmosphere created by pages in which men and women in verity live and move and have their being. An exhaustive survey of documents has created the manorial world in miniature, inviting a more than cursory visit from the casual reader and the close attention of the

student. Mr. Bennett's work will be found wherever there is serious interest in economic history and appreciation of a difficult task well done.

*University of Virginia* D. Clark Hyde.

*Some Origins of the Modern Economic World.* By E. A. J. Johnson. New York: Macmillan Co., 1936. Pp. 163. $1.35.

*Business in the Middle Ages.* By Summerfield Baldwin. New York: Henry Holt & Co., 1937. Pp. 105. $1.00.

These monographs should prove useful as supplementary reading in both economic history and theory courses. Each makes a commendable and successful attempt to portray not only activities and techniques of economic life, but also its ideological background.

In *Some Origins of the Modern Economic World* Professor Johnson begins with a discussion of some of the dynamic forces in economic activity and development, and then proceeds to trace the origins of capitalism in economic development from the late Middle Ages to about 1850. It is regretable that the introductory chapter does not deal more fully with the dynamic forces in economic organization, for the few pages devoted to the subject provide an inadequate preparation for the interpretation which follows. The treatment of origins is well-rounded, dealing with the emergence of capitalistic practices, the beginning of scientific technology, and the formulation of capitalist theory, but it is restricted almost entirely to English economic development. Final chapters describe the transplanting of industrialism across the Atlantic to the United States from both its English and continental origins, and lastly the genesis of economic imperialism. It is a very readable book with occasional flashes of humor and satire. It is to be hoped that a companion volume will be written in which the development of capitalism from 1850 to the present is briefly traced with a similar deft selection of materials.

The ideas and activities which characterized economic life in the centuries from 800 to 1300 are described in *Business in the Middle Ages*. Through a skillful selection of materials also the spiritual, institutional, and technological aspects of that era are briefly and faithfully sketched.

*University of North Carolina* J. G. Evans

*Rural Trends in Rural Planning.* By William E. Cole and H. P. Crewe. New York: Prentice-Hall, 1937. Pp. 596. $3.50.

There is assembled in this book information on a wide variety of subjects, including the organizational set-up of regional, state, and county planning boards, the philosophy and economic bases of rural planning, land settlement, rural social welfare, crime and juvenile delinquency, health, education, library service, recreation, church, local government, and rural electrification. Each of these topics is discussed from three points of view: (a) deficiencies, lags, pathologies, (b) conditions deemed advisable, (for example, consolidation of schools, increase in communal health service), and (c) planning designed to move from the pathological to the normal state.

The discussion of this material is not objective. The authors are advocates rather than critics of economic and social planning. They adhere to the thesis that "planning is not a passing fancy but a new principle which offers a new approach to the solution of our many urban and rural problems." There are several things about this thesis which are disturbing. First, it is not new unless we are willing to exclude the plans and theories advanced by Marx, Owen, St. Simon, Sismondi, Louis Blanc, Fourier, and a host of others who advocated either changes in our social structure or the creation of a new society. Second, planning has not been an unmixed blessing but has created new problems of its own, and in some instances has retarded the solution of others. Finally, planning, as used in the United States, is simply an extension of administrative devices and techniques which have been used more or less extensively for over half a century.

Another disturbing thing about planning as conceived by the authors is the absence of any workable theory of social organization. Just what is the goal of the social and economic planner? Is it communism, socialism or some form of Fascism? The authors of this treatise do not answer this question. They do, however, reject the theory of laissez faire as inadequate. Presumably, this means rejection of or modification of the fundamental institutions of our present economic society. Although they reject the theory of laissez faire, they hold to the rather nebulous theory that the object of economic and social planning is the greatest good to the greatest number. No one, of course, could object seriously to

such a worthy goal, but what most of us are interested in is how such a happy state of affairs can be realized. To advocate planned society in one which is based on the widely accepted fundamental institution of private property, freedom of contract, vested interest, and the like, is not unlike that of waving a red flag before an angry bull. And it is not unlikely that when the advocates and promoters of social planning encounter, in a serious manner, the believers in our fundamental institutions that the results will be far from pleasant. It is quite evident that such an encounter is in progress. Is there a way out of this dilemma? Obviously, if planning is to succeed it must be done within the limits of our present social order or our present social order must be destroyed. There is no other alternative. On this Cole and Crewe are not at all enlightening.

The book is designed, according to the authors, for the use of that "great army of workers whose work takes them into the rural fields," (p. vii) and as a textbook for class work. In the opinion of the reviewer this volume is not suited for textbook purpose, unless used by sophisticated teachers. On the other hand, mature students of rural and social economic problems may find much of interest in it. The book has the distinction of being the only one of its kind now available.

*North Carolina State College,* G. W. Forster
*University of North Carolina*

*Our Natural Resources and Their Conservation.* Edited by A. E. Parkins and J. R. Whitaker. New York: John Wiley and Sons, 1936. Pp. xii, 650. $4.00.

It is generally agreed that no other nation has ever exploited her natural resources as rapidly as has the United States. No other nation has ever accumulated so much wealth. The inhabitants of no other nation have ever enjoyed such a high standard of living. Our wealth and our standard of living are due to our good fortune in possessing the greatest storehouse of natural resources ever possessed by any people. This storehouse we have exploited ruthlessly, but not completely. There is still time to conserve and develop. Unquestionably we have entered into the conservation era. This book is in part a plea to begin conservation before it is too late.

The authors give due credit to the geographers for their accomplishments in building up our knowledge of our resources and problems arising from their extraction. What we know today about conservation aims and practices we have learned largely from geographers. The chapters which appear in this book are largely by geographers.

This volume is a symposium, written by twenty-two scientists, each an authority of note in the field of which he writes. The book possesses both the defects and the advantages of cooperative authorship. No one subject is exhausted, so the book does not meet the needs of students specializing in any field. It lacks uniformity of style. There are some contradictions, and inevitably some duplication. However, the criticisms are not entirely derogatory. Variety of style may be an asset. A little duplication does not hurt. Unequal treatment of subject matter is evidence of lack of uniform progress in various fields, and finally twenty-two men know more than any one man can know. Thus it is more authoritative than the work of any one man could be. A symposium is probably the best plan for a general survey of the entire field of resources and their conservation.

The book combines the viewpoints of administrators, field workers, theorists, and teachers. It fills the needs of the general reader rather than the specialist. It furnishes a wealth of material for the intelligent student. In fact it is a good class room text book and was prepared primarily for class use.

This volume gives a balanced, concrete view of resources and problems in their actual setting as a part of the organic units covered, whether state, regions, or the nation. Emphasis is placed on both the natural and human factors envolved. Each problem is viewed not in isolation, but in its relation to other problems associated with it.

The volume is a real contribution to a timely topic.

*University of North Carolina* S. H. Hobbs, Jr.

*Landlord and Tenant on the Cotton Plantation*. By T. J. Woofter, Jr. Washington: Division of Social Research, Works Progress Administration, 1936. Pp. xiv, 288.

Dr. Woofter's study is the first major study under government auspices designed to provide data on the human elements in the

present plantation system. Only by studying the plantation as an economic unit could the full functioning relationship of labor, management, production, and capital be intelligently appraised. Plantation customs and ideology set the patterns for smaller units. This unique approach is one of the important contributions of the study.

The report is based upon a study of 646 medium and large sized plantations. It was noted that the plantation areas are about the same, geographically, as they were in 1860 when cotton was king. But, significantly, the large plantations are passing away, and are being followed by concentration of large holdings under impersonal control. Of the plantations studied, half had long time loans of amounts averaging 40 per cent of their value. Between 1910 and 1918 the mortgage debt had quadrupled. The fertility of the land had been impaired, new areas on the Southwest had begun to rival the old sites, and could produce more cotton cheaply.

Despite the theoretical effectiveness of control in a plantation system, 38 per cent of these plantations showed a gross income of less than \$2,000. Only 30 per cent of them had a gross income of more than \$5,000. The wages and living conditions of the labor, classed as tenants, share-croppers and laborers, could not be expected to be adequate on such a scant financial margin. Cash renters, the highest class of tenants, averaged \$354 per family; sharecroppers \$312 per family, or about \$71 per capita; and wage laborers \$180 per year. Successive shocks weakening the individual plantation forced adjustments on credit and labor. The most recent of these readjustments has had the effect of forcing tenants from the shadowy security of "furnishing" to the full hazards of common wage labor. Of agricultural workers in the eastern cotton states, one in five families had received relief between 1933 and 1935. These problems are complicated by the interracial character of the population, by the increase in absentee ownership and impersonal control by finance companies, and by the fact that the cotton South has more people than are needed for producing its cash crop. On the larger plantations Negro tenants still predominate.

The study while vital to an understanding of the plantation system does not represent the tenancy situation completely, and

does not aim to do so. Only 270 counties in the seven major cotton states could be considered plantation counties, and the plantations in these counties themselves account for only about half of the tenants. The great bulk of tenants, sharecroppers and laborers in the cotton South are located on smaller tracts where owners are unable to secure the advantage of economies through large scale operation, or the credit economies, and they are on the poorer land. Serious as is the economic and social predicament of the plantation workers, so thoroughly and cautiously presented in this report, the status of the non-plantation tenants is vastly worse, and together these constitute a problem for the South which only drastic reorganization with federal aid and supervision can be expected to alleviate.

The study is important for the thoroughness of its examination of a long neglected field, and tremendously significant for the menacing character of the problems revealed.

*Fisk University* CHARLES S. JOHNSON

*Elements of Modern Economics*. By Albert L. Meyers. New York: Prentice-Hall, 1937. Pp. xi, 363. $4.00.

The main purpose of the author of this book is to incorporate into an introductory text the application of the marginal analysis to conditions of monopolistic competition as worked out by Professor Chamberlain and Mrs. Robinson. The first ten chapters, comprising almost half of the book, are devoted to this undertaking. The traditional concepts of utility, demand, short-run supply, and long-run equilibrium are explained, after which the supply condition of pure competition and that of monopoly of differentiated products more or less similar are treated at length.

These chapters are entirely adequate as far as they go, and the charts and illustrations are as good as this reviewer has seen. The whole discussion, however, is of a system in static equilibrium, a defect which the author attempts to remedy in the latter portion of the book, but with no more success than is commonly to be observed in introductory texts. The same old hiatus is still there. The explanation of prices also suffers from another disability, likewise commonly found in elementary texts, namely that it assumes the existence of the whole price system which it sets out to explain.

The explanation of costs really goes no further than an exposition of bookkeeping as business men practice that art. The author comes nearest to a fundamental explanation of price when he introduces the concept of opportunity costs, but there is no attempt to explain opportunity costs except in terms of other prices which are left unexplained. Perhaps, however, too much should not be expected in this regard from an elementary text.

The functional distribution of income is treated in six chapters as a special instance of market price determination. The rewards of the various factors of production are explained in a very concise, and on the whole, orthodox manner.

At the end of the book are six chapters devoted to special topics, two to money and banking, two to interregional trade and exchange, one to unemployment, and one to business cycles. In these chapters, which together cover only 90 pages, the author discards the assumption of equilibrium and deals with some of the problems of disequilibrium. The chapter on money follows von Mises, although its brevity makes an adequate exposition of the Austrian's ideas impossible. There are some loose statements about *measuring* the value of a good and about the possibilities of fiat money with which von Mises might not agree, but it is refreshing to read a chapter on money in which the average price level is boldly called "a statistical illusion," and in which the learned equations of Mr. Keynes are not even mentioned.

The influence of the Neo-Austrian thought is further seen in the development of the chapter on business cycles around von Hayek's analysis. The author's attempt to tie up Schumpeter's theory with von Hayek's does not seem to this reviewer to result in a very happy marriage. The inclusion of Schumpeter may possibly be explained on grounds of admiration for a former instructor.

The book is pure economics, in the sense that it includes no discussion of economic institutions or of rival plans for social organization. There is not even a paragraph about government control of monopoly, state enterprise, or the forms of the business unit. These omissions will seem unfortunate to some who think these matters should be treated in an elementary course, and who find private property, the corporate form, and the Interstate Commerce Commission to be no more economic institutions than fiduciary money and deposit banking.

On the whole the author has done well what he undertook to do. The analysis of monopolistic competition should certainly be included in our elementary treatment of price theory, and the inclusion of the work of von Mises and von Hayek in American text books is worthy of all commendation. The brevity of the book will perhaps make it unacceptable to some instructors who expect their students to rely almost exclusively upon the text. To others, who like to supplement and expand, this will appear as an advantage.

There are no questions, references, or bibliographies in the book. But the index is quite complete.

*Davidson College* C. K. Brown

*The World's Wealth: Its Use and Abuse.* By Broadus Mitchell. New York: Henry Holt & Co., 1937. Pp. vii, 772. $4.00.

This volume was first published in 1932 as an elementary text in economics under the title *A Preface to Economics*. It was revised and enlarged in 1937 and appeared as *General Economics*. Later in 1937, it was reprinted with a new foreword and a new title—*The World's Wealth: Its Use and Abuse*. It was attractively bound, and its colorful cover carried blurbs to arouse the interest of the general reader at whom it seems to have been aimed.

The later edition is practically identical word for word with the first. The revision was confined largely to softening the intimacy of the style and the deletion of jocularity with which the author attempted to spice the abstractness of economic theory. An effort was made to cover the major economic happenings since the New Deal. This enlargement came in the form of new chapters on banking and labor and insertion of new material at the close of many chapters. The marked contrast between the simplicity of the original text and the difficulty and complexity of the added material suggests patchwork.

For many reasons the reviewer deems the work unsatisfactory as a text for class-room use. The space given to production, exchange, and distribution is badly apportioned; more than one-half of the book is devoted to distribution. Probably to avoid mathematical illustrations, which the author admittedly abhors, little attention was given to the law of diminishing returns and

the costs of production. Nor were any of the elementary statistical devices by which we measure economic phenomena explained, although they were used and especially in the added material. Admirably summarized were labor under the New Deal and the recent monetary and banking policies. However, an unfortunate misconception of bank credit expansion persists in all editions. A national bank is represented as being able to lend $1,000,000 after rediscounting $100,000 of its customers' notes at the Federal Reserve Bank. Suffice it to say, the description and analysis of the existing order is inadequate.

It should be remembered that the purpose as expressed in the foreword of *The World's Wealth: Its Use and Abuse* is to focus the attention of the reader upon the conflict between competition and collectivism. The author believes that "economics is now in the most critical phase, of thought and practice, ever experienced." He asks, "Do we get on faster toward the goal (a higher standard of living) by relying upon private ownership of the important means of production and upon private initiative, or through common ownership and production for use, not for profit?" Throughout the book this question is answered with a persistent Marxian bias.

The author fears a prejudiced antagonism to socialistic doctrine and attempts to overcome it by emphasizing the dynamic character of economic thought. He traces in some detail the development of the theories of wages, rent, interest, and profits. Combined with this condensed history of economic thought are some thirty biographical sketches of outstanding economic theorists. This is fortified by a most excellent account of business consolidation and monopoly practices, an inadequate brief for private ownership and a glowing, but unconvincing, one for public ownership of the instruments of production.

All in all, the general reader will find it informative, interesting, and provocative of thought.

*Wake Forest College* L. OWENS REA

*Economics for Everybody: From the Pyramids to the Sit-Down Strike.* By Mervyn Crobaugh. New York: William Morrow & Co., 1937. Pp. 293. $2.50.

As the title indicates, this book is designed primarily for the

man on the street, yet it contains much of interest for the professional economist. Stripped of superfluous verbiage and circuitous reasoning, the history of economic thought is presented in a concise and delightful manner. For the first time, humorous chapter headings and sub-titles have been used to clarify the subject matter. Part I is entitled "Economics Begins, Is Given a Name, but Fails to Get Organized" and deals with economic thought in ancient and medieval times. Part II on "Economics Is Organized, Finds a Father, and the Laws of Supply and Demand Get to Work" treats the evolution of economics from the time of the Mercantilists through Karl Marx. Part III on "Schools, Sects and Schisms Flourish" traces the development of economics from the Marginal Utility School to the present day and concludes with stimulating chapters on economic thinking in times of a depression, the New Deal, and the present economic outlook.

Students of economic theory will be amused at such captions as "Malthus: The Poor Have Too Many Children—Human Nature Is to Blame; Famines, Plagues, Wars, and Other Necessities; Eugenics: Love among the Learned" and "The Orthodox School: Demand and Supply Once More—Old Wine in New Bottles; Competition and the Roundabout Method of Production; It Will Turn Out All Right in the Long Run." On the other hand, such students may be irritated by the omission of qualifications and assumptions, as in the treatment of marginal utility, which the author omits in order to make the subject matter clear to the average reader. Yet, in each chapter one finds the main contributions of a particular writer or school, some appraisal of these contributions, and a comparison of the economic problems and thinking of earlier times with those of the present day. Just as non-technical books for the lay reader have appeared in mathematics, chemistry, and other sciences, so *Economics for Everybody* fills a similar need.

*Washington and Lee University* M. Ogden Phillips

*Supervision and Control of Virginia State Banks*. By Allan Garfield Gruchy. New York: Appleton-Century Co., 1937. Pp. ix, 329. $3.50.

In this book the reader is presented first with an historical summary of the development of state bank regulation in Virginia followed by an analysis of the present legal framework of bank regu-

lation and a criticism of the scheme of supervision and control. In conclusion the author makes various constructive suggestions for the improvement of state bank supervision.

The demonstration of the futility of the attempt through state regulation and control to make an 18th century small unit banking system—long since abandoned by other important industrial nations—work successfully in a modern era characterized by large-scale mass production and the rapid disappearance of the economic significance of state boundaries is the chief contribution of Mr. Gruchy's book. He presents very effectively the impossibility of legislating away the major deficiencies of a dual unit banking system such as over-banking, the inability of regulation to guarantee good management among thousands of small banks, competitive relaxation of supervision among regulatory authorities, and excessive failures and mergers.

One by one the sins of omission and commission of state bank regulation are set forth, first in an historical way, then in the light of the more recent events of the last few disturbed years. He very correctly points out that the primary concern of state bank regulation in Virginia, as in other states, has not been with the more important question of the reformation of the structure of a defective system, but with the administrative and functional control of the existing system in a series of desperate and ineffectual attempts to shore up its inherent weaknesses. By implication at least the question is raised as to the utter inability of state supervisory authorities to cope with the structural defects and conditions imposed by a dual unit system of banking even though they were inclined to do so, due to state and national legal barriers and the relative unimportance of state boundaries in the financial development of the nation.

The major criticism that this writer would offer is that, in suggesting reforms and methods of improvement for bank regulation in Virginia, Mr. Gruchy has followed the course of the supervisory authorities themselves and has suggested for the most part only certain administrative and functional changes which after all are mere panaceas or minute patches on the outmoded and outworn garment of our banking structure. Fundamental banking reform, whether it is approached from the standpoint of the state

or nation, must be preceded and accompanied by the creation of a satisfactory philosophy or theory of banking operation and reform. This reviewer does not feel that in this work the author has built up an adequate theoretical background against which to impose his suggested reforms. But this inadequacy may be due to the fact that he is overwhelmed and appalled by the task of approaching fundamental banking reform through state legislation.

*University of Tennessee* M. O. Ross

*For Top-Executives Only*. Edited by J. George Frederick. New York: Business Bourse, 1936. Pp. viii, 383. $5.00.

Our civilization dominated by business, and business dominated by neither stockholders nor employees, but by "top-executives only." . . . The tragic record of nearly a decade impressively emphasizes the misery that follows when executives use *un*scientific management policies. Believing their failures as shown by the depression have deflated and chastened these high priests of big business, the editor (and author, for most part) hopes they will be receptive toward his critical but constructive appraisal of themselves and their traditional policies. Forward-looking executives will accept his recommendations as practical during this time of readjustment, and social scientists will approve his social viewpoint. In business "literature," quite an achievement. . . .

Assisted by five prominent business leaders (total contribution about one-third), the "editor" produced sixteen chapters in three "books" rather confusingly organized. With much rearrangement, the contents may be stated as dealing with (a) American executives themselves, historical and present, and (b) executive policies for the period ahead.

Possibly the most valuable contribution is the analysis of executive types as changing during six periods of our history, and the perspicacious appraisal of tendencies in executive personnel at present. The student (and teacher too) of business management will find new confidence and some enlightenment concerning the ideal executive in chapters like "Decline of Experience as a Major Executive Virtue," "What Personal Qualities Make an Executive" (fundamental research is still much needed here), and "Modern

Techniques of an Executive" by Samuel W. Rayburn, Chairman of Lord and Taylor, whose analysis of management is faulty but whose advice to future executives is most sound.

Concerning internal policies, the primary theme is that "production-minded" and "finance-minded" executives should be replaced with others equally obsessed with the primacy of marketing as the raison d'etre of the enterprise. A rather thin but racy expose of executive pre-occupation with the mechanics of business or its mirrored reflection in finance, to the utter neglect of the customer, is contributed by Kenneth Goode. Sanford E. Thompson discusses "The Sales Basis of Today's Industrial Management" persuasively, but with apparent understanding that central coordinating guidance by the chief executive must preclude overemphasis on even marketing.

Inevitably, final consideration is given the corporate policy of cooperation or conflict with the federal government's expanding control over business. With courage the editor ably champions a positive social-minded cooperation, in debate with Alfred P. Sloan, Jr. of General Motors, and C. M. Chester, President, National Association of Manufacturers, neither of whom admit any need for business to alter its traditional ways.

All in all, here are discernment in understanding himself, and also sage counsel for any executive who aspires to economic statesmanship.

*University of Texas* CHESTER F. LAY

*Handbook of Financial Administration, Commonwealth of Kentucky.* By Public Administration Service. Frankfort, Kentucky, 1937. Pp. viii, 353.

The Commonwealth of Kentucky's Governmental Reorganization Act of 1936 necessitated a new organization and procedure for the financial administration of the state's affairs. The Public Administration Service of Chicago acted as consultant in devising the new financial procedure, which has been set forth at some length in a 353 page *Handbook of Financial Administration.*

As stated by the authors, the contents represent an adaptation of recognized practice to the specific needs and conditions of the Commonwealth of Kentucky. The work is clearly written and

well illustrated with organization charts, exhibits, and accounting forms. It closes with a fifteen-page glossary of financial terms that should be helpful not only to the layman but to the specialist as well.

The purpose of the volume is said to be five-fold: "(1) to enable all agencies of the Commonwealth to understand the prescribed procedures, (2) to instruct employees of the various fiscal offices, (3) to expedite effective supervision of such employees, (4) to indicate constitutional and statutory provisions relating to finance that require revision, and (5) to make available to interested citizens a complete description of how the state's finances are administered."

The fifth purpose, as stated above, might have the effect of a soporific on the interested citizen, which was doubtless not intended either by Governor Chandler or P.A.S. The volume should be read, not as a description of how the state's finances *are* administered, but rather a description of how they *should be* administered. The value of the volume to the interested Kentuckian will be as a standard by which to measure existing practice, from time to time, rather than as a source book of "facts" on state financial procedure.

To the government official and the citizen of Kentucky and to the student of the financial administration of state government generally the *Handbook* represents a definite contribution. Other states should follow Kentucky's example.

*University of North Carolina* CHARLTON F. CHUTE

*Municipal Bonds: A Century of Experience.* By A. M. Hillhouse New York: Prentice-Hall, 1936. Pp. xiv, 579. $3.50.

This book is, in the words of the author, "a study in pathology." After an introductory chapter describing present debt burdens and the extent of recent municipal defaults, the author devotes almost one-half of the book to the history of previous defaults. The remainder of the book is devoted to a discussion of economic and financial causes of defaults, legal means and methods of dealing with them, and a program for the future.

Hillhouse believes that two major factors are responsible for most defaults. On one hand, local revenues shrink sharply in

depressions because the local tax system is overloaded. On the other hand, debts are piled up rapidly in periods of prosperity to help the real estate speculator and to finance municipal competition in ostentatious spending. Extraordinary expenditures, such as care of the unemployed, often constitute a third factor.

The author's legal training stands him in good stead as he discusses creditors' remedies, state remedial measures, and the Federal Debt Adjustment Act. The latter is covered fully, including legislative history, provisions, petitions filed, and an analysis of the court decision which declared it invalid. The author believes that a defaulting municipality should, if possible, forestall the formation of a bondholders' protective committee and that we should have a permanent federal debt adjustment act. After an excellent discussion of the consequences of defaults to municipalities and bondholders, the book closes with a recommended program for preventing future defaults. This includes long-range planning for capital outlays, a system of constitutional and statutory debt limits, and state supervisory agencies to govern borrowing and act as receivers in case of default. Several appendices give valuable statistics, texts and summaries of laws, and bibliographical aids. The copious bibliography is well selected. To those dealing with local debts, whether legislators, administrators, or students, this book is a valuable aid and guide.

*Duke University* B. U. RATCHFORD

# STATE NEWS

## ALABAMA

There has been a decided revival of interest in industrial development in the state of Alabama. Evidences are seen in the reappearance of the State Chamber of Commerce with offices at Montgomery and the Industrial Development Board with offices at Birmingham. The latter is set up as a part of the State Department of Agriculture and Industry. Further evidence is the establishment of new industries especially in south Alabama. Mobile, with the recent development of port facilities, has attracted new plants, as have a number of smaller communities, especially where White labor predominates.

Renewed efforts to promote better transportation facilities are being made. The governor has taken an active part in the attempt to bring about a readjustment of the inter-territorial freight rate structure. There is also renewed interest in the development of navigation on Alabama rivers. Two projects are receiving attention. One contemplates an all-water route from Mobile to the Tennessee River, either by way of the Tombigbee River, which would make the connection in northern Mississippi, or by the Warrior River which would make the connection at Guntersville, Alabama. The Warrior route would pass through the Birmingham industrial area and is naturally more favored by citizens of the state. The other project would make the Coosa River navigable from Montgomery through Gadsden. This would provide a water route through Mobile and Montgomery to the growing industrial city of Gadsden in north Alabama and from there to Rome, Georgia. The United States War Department is conducting studies of both projects.

The state is currently experiencing a considerable recession in business. All the production series analyzed by the Bureau of Business Research of the University of Alabama reflect this decline. The curtailment in trade thus far has not been as pronounced as in

production. During the first six months of 1937, however, pig iron and steel ingot production approximated the high levels of the twenties.

Birmingham has been selected as the place of meeting of the Southern Economic Association in November, 1938.

*University of Alabama* H. H. Chapman

## GEORGIA

So far, there is little outward evidence in Georgia of the business recession which has recently occupied the headlines. Retail sales and bank clearings have been well maintained. Textile manufacturers, however, have been curtailing production for some time. Orders have been withheld until raw cotton shall have hit bottom.

In the labor scene competition from C. I. O. affiliates, particularly the Textile Workers Organizing Committee, has stimulated the organizing activities of the bodies affiliated with the A. F. of L., and the ranks of organized labor in the state are still growing. There are frequent reports of the signing of new agreements and with few exceptions, these have been negotiated quietly and without disturbance.

Funds are still inadequate to provide decent benefits for approved applicants for public assistance under the social security program. The proposed federal wages and hours bill has provoked attacks in the state by several congressmen who are jointed by a number of manufacturers, chambers of commerce, and other associations. The attacks, however, are neither so widespread nor so sympathetically received as might be expected.

A special session of the legislature was called late in November, primarily to consider the problem of providing new sources of revenue. Although a special commission had previously studied the problem, no definite proposals were made other than the suggestion that expenditures be pared. The commission's report doubtless reflects the recent growth of public opposition to the idea of any increase in taxes.

A unique and interesting experiment in mass education has recently been inaugurated in Georgia by an organization known as the Citizens Fact-finding Committee, composed of representatives of fourteen state-wide civic and educational bodies. Recog-

nized authorities are preparing study outlines of factual material covering twelve major aspects of the social, economic, and political life of the state. This material is being distributed to approximately 5,000 local units of the participating groups as well as thousands of other organizations and individuals throughout the state who have asked to have their names placed on the mailing list. The outline for the November topic of agriculture was prepared by Dean Paul W. Chapman and staff of the College of Agriculture of the University of Georgia. To illustrate the provocative sort of information developed, the following statement is cited: "It has taken, over a period of years, 2.8 acres of land and 35 man hours of labor to produce a gross income of $100 from cotton; in the same years it has taken 23 acres of land and 13 man hours to produce $100 from beef cattle. This means that when we diversify farming we cannot employ our present farm population unless we include enterprises requiring a large amount of labor such as dairying and vegetable growing."

*Emory University* J. Edward Hedges

## MISSISSIPPI

Though still to receive a test of constitutionality, Governor White's "Balance Agriculture with Industry" program continues to make progress in local elections. Ten bond issues totaling $700,000 have been approved by the Industrial Commission and by the voters of the ten municipalities. The proceeds will be used for the purchase of factory sites and the construction of buildings which will be turned over to new industries under contracts providing (in addition to a five-year exemption from local ad valorum taxes) free rental of the property for a stated number of years, varying with the number of laborers employed. Only one municipality has rejected such a bond issue at the polls.

Sanguine estimates cited by the Industrial Commission indicate that in return for investing this $700,000 the municipalities will experience an increase of 5,000 in the number of factory employees, three to four million dollars in annual industrial pay rolls, and five to six million dollars in eventually taxable industrial property consisting chiefly of machinery which the new enterprises will supply. Some confidence in these estimates is inspired by the fact

that, in nine of the ten localities, agreements have already been reached with the industrial interests which will use the properties, and in one locality, Durant, the operation of a small textile plant has begun.

The lethargic old river town of Natchez provides the latest (November 13, 1937), the largest, and the most dramatic illustration of the program's operation to date. Having been the lap of Mississippi's maldistributed ante-bellum luxury, Natchez has been the slowest city in the state to adopt new ways since the Civil War. Its leading economic assets have been its historic interest, the lingering grandeur of its century-old residences and the charm that it holds for tourists. Departing abruptly from this tradition, Natchez has just voted a $300,000 bond issue to construct a building for the Armstrong Rubber Company, which will manufacture automobile and truck tires.

Of the other nine factories in the present program, six will be cotton textile mills, one a woolen goods mill, and one a plywood mill, while the nature of one is yet to be determined. All except the Natchez plant will be in small towns of around 3,000 population.

In Winona, where the specific industry to be established has not been decided upon, the administration has at last succeeded in inducing a taxpayer to bring suit to test the constitutionality of the "Balance Agriculture with Industry" law. The case is to receive preference on the docket of the state supreme court, and its outcome should be known in the near future. With the question of constitutionality pending, out-of-state underwriters have shunned the bonds thus far, and all have been taken by Mississippi bankers at relatively high interest rates.

In any appraisal of the forces bringing industry to Mississippi, account must also be taken of (1) the state's competently administered $100,000 advertising program, (2) the friendly attitude of a governor who is himself a prominent industrialist, and (3) certain basic economic factors, including certain raw materials, cheap and docile common labor, and declining power costs. It is noteworthy that textile plants have recently been established at the following points without participation in the "Balance Agriculture with Industry" program: Meridian, Ellisville, Vicksburg, Corinth, Gulfport, Brookhaven, Columbia, Lumberton, and Picayune.

Paralleling the current industrialization, agitation is being felt for certain forms of social legislation in which Mississippi lags behind other states. The regular session of the legislature, assembling in January, will face proposals of (1) a workmen's compensation act, (2) a department of labor with power to enforce certain existing labor legislation, and (3) a department of public welfare.

*Jackson, Mississippi* M. K. Horne, Jr.

## NORTH CAROLINA

Statistics for the first eight or nine months indicate that economic conditions in North Carolina were substantially better in 1937 than in 1936. Cash farm incomes for the first eight months amounted to $68,375,000, an increase of $8,671,000 over the same period in 1936. The increase, however, was due almost entirely to increased benefit payments by the federal government. Larger sales of tobacco at higher prices during the last four months of the year probably increased the favorable showing. Internal revenue collections in the state by the federal government in September were the largest for any month on record and exceeded those of September, 1936 by $3,858,900. Debits to individual accounts in the seven leading cities of the state ranged from 5 to 15 per cent above 1936 figures. Registrations of new passenger cars for the first nine months were 18.7 per cent greater than in 1936. Department store sales for the same period were up 9.4 per cent. The textile industry prospered during the first half of the year but declined sharply in the late summer and autumn, forcing curtailment in many mills. The 1937 apple crop was expected to be about two and one-half times as large as the 1936 crop, while the Irish potato crop was up about 60 per cent. The cotton, corn, sweet potato, tobacco, and hay crops showed substantial increases, while the peanut crop was about the same. The sharp decline in the price of cotton was the most serious development on the unfavorable side.

The 1937 General Assembly exempted certain basic foods from the sales tax, but extended the tax to apply to building supplies. For the three months ending September 30, 1937 total sales tax collections amounted to $2,684,149—an increase of $173,794 over the corresponding period of 1936. This would seem to indicate

that the two changes about offset each other in their effects on revenue.

In the short space of two years the state's budget has shown a great increase. In the fiscal year 1935 the state collected a total of $50,983,000 in revenues, spent $45,942,000, and realized a surplus of $5,041,000. In the fiscal year 1937 revenues rose to $69,180,000 and expenditures to $65,791,000, leaving a surplus of $3,389,000. In both years the gasoline tax yielded about a third of the revenues, with the sales tax a poor second; the income tax, automobile licenses, and franchise taxes each produced from 10 to 15 per cent of total revenues and ranked only slightly below the sales tax. On the expenditure side public schools accounted for approximately a third of the total in each year; in 1935 debt service was second in importance and highway maintenance third, but in 1937 this order was reversed, with each accounting for more than 20 per cent of the total. No other function received as much as 10 per cent of the total.

More than 10,000 needy persons in the state received old age assistance benefits for the month of September, while 1,310 needy blind persons received blind benefits averaging $13.60 per person. The average for old age assistance grants has been and will continue to be below the national average, due to the size of the appropriation for this purpose. The average payment in this state was $9.39 for July and $8 for August, as compared with a national average grant of $18.51 per month. The State Board is urging that no grants be made of less than $5, and a state average of around $10 per month is anticipated.

*Duke University* B. U. Ratchford

## VIRGINIA

Business in Virginia showed about the usual seasonal gains during September, with dollar volume maintained at levels appreciably ahead of last year. The indices of bank debits, of employment, and of consumption of electrical energy all showed appreciable increases over a year ago. A recent analysis made in *Technical Topics*, published by the Virginia Polytechnic Institute, shows that in 1935 the value of manufactures in Virginia came closer to the 1929 level than in any other state in the country. The 1935

Virginia figure was 1.4 per cent below the 1929 value, while the figure for the country as a whole was 35.2 per cent below 1929.

The State Planning Board has published recently the results of a study of retail trade in Virginia in 1929, 1933, and 1935. Briefly the following significant trends were discovered: (1) A considerable increase in the number and the amount of business done by eating and drinking places; (2) a decline in the number and the volume of business of the "country stores"; (3) a steady increase since 1929 in the number of establishments and the volume of sales of filling stations; (4) an increase in the number of clerkless stores in certain sections; (5) a decentralization of sales points from trade centers to trade areas; (6) a clear dependence of certain lines of retail trade upon the buying power of the surrounding rural area; (7) the slow recovery of retail sales of materials used in building operations; (8) the lag of furniture, household and radio groups in the up-turn; (9) the failure of retail trade to provide employment commensurate with the upswing in total volume of retail sales; (11) the extreme variations in the amount of total sales expended for employee wages in the same type of establishments in different parts of the state.

*University of Virginia* GEORGE T. STARNES

## PERSONNEL NOTES

E. H. Anderson, formerly of Furman University, joined the teaching staff of the Department of Economics and Commerce of the University of North Carolina last fall after taking his Ph.D. degree there during the summer.

E. M. Bernstein has been promoted to the rank of Professor of Economics in the University of North Carolina.

Truman C. Bigham of the University of Florida was elected President of the Southern Economic Association for the year 1937–1938.

J. C. D. Blaine, who was for two years Director of Business Administration and Commerce Courses at Albert College, Ontario, Canada, is now a teaching fellow in the Department of Economics and Commerce of the University of North Carolina.

Harry G. Brainard resigned from The Citadel to become Head of the Department of Economics at the Southern Illinois State Normal University.

Maurice R. Brewster, formerly of Georgia School of Technology but for the past four years Assistant Professor of Economics at Emory University, has returned to the former institution as Associate Professor of Economics.

George B. Brown has been added to the staff of the School of Business at Mississippi State College with the rank of Instructor.

Malcolm H. Bryan, now on leave from the University of Georgia to work with the Board of Governors of the Federal Reserve System in Washington, resigned from the editorship of this Journal on September 30, 1937. Mr. Bryan's action was prompted by the conviction that the editors should be residents of the South. The Executive Committee of the Southern Economic Association at the Knoxville meeting, November 6, accepted the resignation with regret and with deep appreciation for his services, recalling that he had been associated editorially with this venture from its inception.

F. H. Bunting has been promoted from teaching fellow to Instructor of Economics at the University of North Carolina.

Addison T. Cutler, formerly of Columbia University, has become Head of the Department of Economics at Fisk University.

C. H. Donovan, formerly with the Tennessee Valley Authority, has been appointed Instructor of Economics at the University of North Carolina.

Ralph E. Elliott, formerly an Instructor at the University of Alabama and the University of Georgia Evening School, is part-time Instructor in Accounting at Georgia School of Technology.

J. G. Evans has resigned from the Resettlement Administration and has resumed his teaching work at the University of North Carolina.

Blancharm Fraser has joined the Department of Secretarial Work at Alabama College for Women with the rank of Instructor.

S. P. Garner, Assistant Professor of Business Administration at Mississippi State College, is on leave to study at the University of Texas, where he holds a teaching fellowship.

A. G. Griffin of Furman University was elected Vice-President in charge of membership of the Southern Economic Association for the year 1937–1938.

M. S. Heath, Associate Professor of Economics at the University of North Carolina, was granted a Kenan leave for the fall quarter of 1937.

M. K. Horne, Jr., has resigned from the University of Mississippi and is now Director of Research and Information of the Mississippi Unemployment Compensation Commission.

T. L. Howard of the Tennessee Valley Authority was re-elected Vice-President in charge of research of the Southern Economic Association for the year 1937–1938.

D. Clark Hyde of the University of Virginia was re-elected Secretary-Treasurer of the Southern Economic Association for the year 1937–1938.

Paul M. Jones has been appointed Assistant Professor in the School of Business at Mississippi State College.

Preston B. Kimball has become an Instructor in the School of Business at Mississippi State College.

C. A. Kirkpatrick has accepted an appointment as Assistant Professor in the School of Business at Mississippi State College.

C. E. Kuhlman, teaching fellow in the Department of Economics and Commerce of the University of North Carolina last year, has been promoted to the rank of Instructor in Economics.

W. W. Littlejohn has joined the faculty of the School of Business at Mississippi State College.

William F. Lozier has become a member of the faculty of the Georgia School of Technology as Instructor in Law, Economics, and Government.

H. L. McCracken was made Head of the Department of Economics at Louisiana State University at the beginning of the current school year. At the Knoxville meeting of the Southern Economic Association, Professor McCracken was elected Editor of this Journal representing the Association.

Paul Ramsey is filling the vacancy left by Vernon Wharton in the Department of Economics at Millsaps College.

George T. Starnes of the University of Virginia has been elected President of the Virginia Consumers League.

Minnie B. Tracy has been added to the staff of the Department of Secretarial Work at Alabama College for Women.

Robert H. Tucker of Washington and Lee University was elected Vice-President in charge of program of the Southern Economic Association for the year 1937-1938.

Vernon Wharton is on leave from Millsaps College to do graduate work at the University of North Carolina.

H. H. Washburn, formerly an Instructor at Mississippi State College, has resigned and is studying at the University of Wisconsin.

J. P. Williams of Davidson College has been on leave during the first semester of the present year making a study of the curricula of business schools. During his absence his place has been filled by John S. O'Connor.

Rene de V. Williamson, formerly of Princeton University, is now Associate Professor of Political Science and Economics in Davidson College.

# BOOKS RECEIVED

*Handicrafts of the Southern Highlands*. By Allen H. Eaton. New York: Russell Sage Foundation, 1937. Pp. 370. $3.00.

*Natural Law in the Economic World*. By William Wilcox Green. Boston: Christopher Publishing House, 1937. Pp. 151. $1.50.

*Banking Turnover and Facilities in Illinois*. By Arthur H. Winakor. Urbana: University of Illinois, 1937. Pp. 60.

*Farmers on Relief and Rehabilitation*. By Berta Asch and A. R. Mangus. Washington: Works Progress Administration, 1937. Pp. xx, 226.

*Development of Economic Society*. By George Matthews Modlin and Frank Traver de Vyver. Boston: Little, Brown & Co., 1937. Pp. x, 474. $1.40.

*Supervision and Control of Virginia State Banks*. By Allan Garfield Grouchy. New York: Appleton-Century Co., 1937. Pp. ix, 329. $3.50.

*Money and Banking, 1936–37. Vol. I: Monetary Review*. By the League of Nations. New York: Columbia University Press, 1937. Pp. 170. $1.50.

*Money and Banking, 1936–37. Vol. II: Commercial Banks*. By the League of Nations. New York: Columbia University Press, 1937. Pp. 174. $1.50.

*Money and Banking*. Sixth Edition. By John Thom Holdsworth. New York: Appleton-Century Co., 1937. Pp. xi, 614. $3.75.

*The Federal Reserve Bank of San Francisco*. By Parker B. Willis. New York: Columbia University Press, 1937. Pp. xiii, 277. $3.00.

*Aspects of the Organization, Functions, and Financing of State Public Utility Commissions*. By C. O. Ruggles. Boston: Harvard Graduate School of Business Administration, 1937. Pp. vi, 90. $1.00.

*A Syllabus for Ancient History*. By M. I. Finkelstein. New York: Farrar & Rinehart, 1937. Pp. v, 82. 80 cents.

*Elements of Modern Economics*. By Albert L. Meyers. New York: Prentice-Hall, 1937. Pp. xi, 363. $4.00.

*Iron Laws or Bubbles*. By W. E. Payne. Boston: Chapman & Grimes, 1937. Pp. xx, 227. $2.50.

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